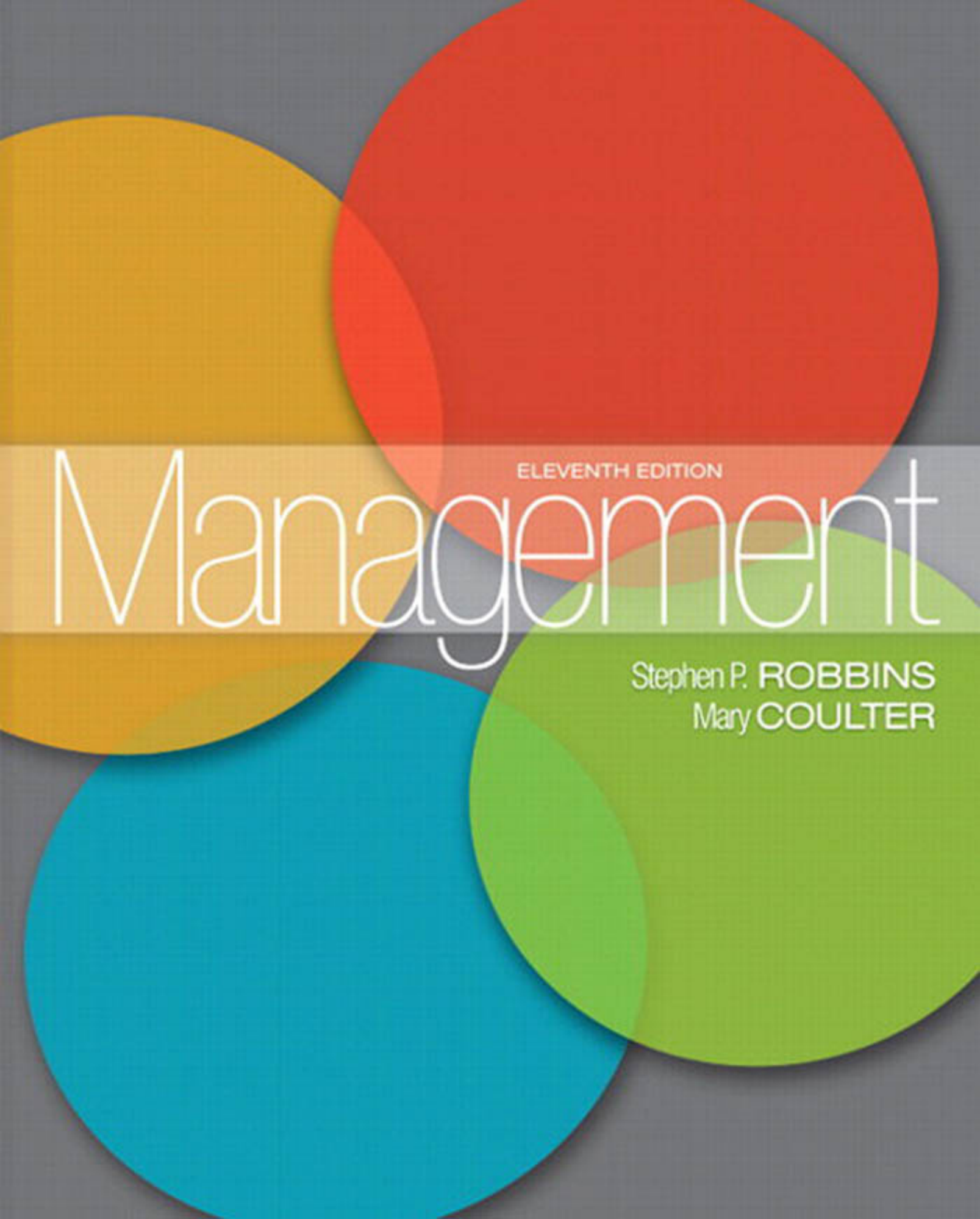
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To my wife, Laura

Steve

To my family:
Ron
Sarah and James
Katie and Matt
and our newest addition, Brooklynn

Mary

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Brief Contents

Preface xxiii

Part I Introduction to Management

Chapter 1 Management and Organizations 2
Module Management History 27
Chapter 2 Understanding Management's Context: Constraints and Challenges 42

Part II Integrative Managerial Issues

Chapter 3 Managing in a Global Environment 68
Chapter 4 Managing Diversity 96
Chapter 5 Managing Social Responsibility and Ethics 122
Chapter 6 Managing Change and Innovation 150

Part III Planning

Chapter 7 Managers as Decision Makers 176
Chapter 8 Foundations of Planning 202
Chapter 9 Strategic Management 222
Module Planning Tools and Techniques 248

Part IV Organizing

Chapter 10 Basic Organizational Design 262
Chapter 11 Adaptive Organizational Design 286
Chapter 12 Managing Human Resources 310
Module Managing Your Career 340
Chapter 13 Managing Teams 344

Part V Leading

Chapter 14 Understanding Individual Behavior 370
Chapter 15 Managers and Communication 402
Chapter 16 Motivating Employees 428
Chapter 17 Managers as Leaders 458

Part VI Controlling

Chapter 18 Introduction to Controlling 484
Chapter 19 Managing Operations 514
Appendix: Managing Entrepreneurial Ventures 537

Endnotes 561
Name Index 607
Organization Index 624
Glindex 628
Photo Credits 643

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Contents

Preface xxiii

Part I Introduction to Management

Chapter 1 **Management and Organizations 2**

Why Are Managers Important? 4

Who Are Managers and Where Do They Work? 5

Who Is a Manager? 5

Where Do Managers Work? 6

What Do Managers Do? 8

Management Functions 9

Mintzberg's Managerial Roles and a Contemporary Model of Managing 10

Management Skills 12

How Is the Manager's Job Changing? 13

Importance of Customers to the Manager's Job 14

Importance of Innovation to the Manager's Job 16

Importance of Sustainability to the Manager's Job 16

Why Study Management? 17

The Universality of Management 17

The Reality of Work 18

Rewards and Challenges of Being a Manager 18

Boxed Features

A Manager's Dilemma 4

BY THE NUMBERS 5

FUTURE VISION | *The Working World in 2020* **7**

LEADER WHO MADE A DIFFERENCE | *Andrew Cherng* **12**

My Response to A Manager's Dilemma 19

Chapter Summary by Learning Outcomes 20

Review and Discussion Questions 21

Preparing for: My Career 21

Case Application 1: More Than a Good Story 23

Case Application 2: Flight Plans 24

Module **Management History 27**

Early Management 28

Classical Approach 29

Behavioral Approach 32

Quantitative Approach 34

Contemporary Approaches 36

Chapter 2 Understanding Management's Context: Constraints and Challenges 42

The Manager: Omnipotent or Symbolic? 44
The Omnipotent View 44
The Symbolic View 45

The External Environment: Constraints and Challenges 46
The Economic Environment 47
The Demographic Environment 47
How the External Environment Affects Managers 48

Organizational Culture: Constraints and Challenges 51
What Is Organizational Culture? 51
Strong Cultures 52
Where Culture Comes From and How It Continues 54
How Employees Learn Culture 55
How Culture Affects Managers 56

Current Issues in Organizational Culture 58
Creating an Innovative Culture 58
Creating a Customer-Responsive Culture 58
Spirituality and Organizational Culture 58

Boxed Features
A Manager's Dilemma 44
FUTURE VISION | *The Working World in 2020* 47
LEADER WHO MADE A DIFFERENCE | *Betsy McLaughlin* 50
BY THE NUMBERS 56
My Response to A Manager's Dilemma 61

Chapter Summary by Learning Outcomes 62
Review and Discussion Questions 63
Preparing for: My Career 63
Case Application 1: Out of Control 65
Case Application 2: Dressing Up 66

Part II Integrative Managerial Issues

Chapter 3 Managing in a Global Environment 68

Who Owns What? 70
What's Your Global Perspective? 71
Understanding the Global Environment 72
Regional Trading Alliances 72
Global Trade Mechanisms 76

Doing Business Globally 77
Different Types of International Organizations 78
How Organizations Go International 78

Managing in a Global Environment 80
The Political/Legal Environment 80
The Economic Environment 80
The Cultural Environment 81
Global Management in Today's World 84

Boxed Features

A Manager's Dilemma 70
LEADER WHO MADE A DIFFERENCE | *Indra Nooyi* 72
BY THE NUMBERS 77
My Response to A Manager's Dilemma 87

Chapter Summary by Learning Outcomes 88
Review and Discussion Questions 89
Preparing for: My Career 89
Case Application 1: Held Hostage 91
Case Application 2: Global Stumble 93

Chapter 4 Managing Diversity 96

Diversity 101 98
What Is Workplace Diversity? 98
Why Is Managing Workforce Diversity So Important? 100
The Changing Workplace 102
Characteristics of the U.S. Population 102
What About Global Workforce Changes? 103
Types of Workplace Diversity 105
Age 105
Gender 106
Race and Ethnicity 107
Disability/Abilities 108
Religion 109
GLBT: Sexual Orientation and Gender Identity 109
Other Types of Diversity 110
Challenges in Managing Diversity 110
Personal Bias 110
Glass Ceiling 112
Workplace Diversity Initiatives 112
The Legal Aspect of Workplace Diversity 113
Top Management Commitment to Diversity 114
Mentoring 114
Diversity Skills Training 115
Employee Resource Groups 115

Boxed Features

A Manager's Dilemma 98
BY THE NUMBERS 109
LEADER WHO MADE A DIFFERENCE | *Kenneth I. Chenault* 112
My Response to A Manager's Dilemma 116

Chapter Summary by Learning Outcomes 117
Review and Discussion Questions 118
Preparing for: My Career 118
Case Application 1: Mission Possible: Strategic Diversity 120
Case Application 2: Women in Management at Deutsche Telekom: Part 2 121

Chapter 5 Managing Social Responsibility and Ethics 122

What Is Social Responsibility? 124
From Obligations to Responsiveness to Responsibility 124
Should Organizations Be Socially Involved? 126

Green Management and Sustainability 127
How Organizations Go Green 127
Evaluating Green Management Actions 129

Managers and Ethical Behavior 129
Factors That Determine Ethical and Unethical Behavior 130
Ethics in an International Context 133

Encouraging Ethical Behavior 135
Employee Selection 135
Codes of Ethics and Decision Rules 135
Leadership 137
Job Goals and Performance Appraisal 137
Ethics Training 138
Independent Social Audits 139
Protective Mechanisms 139

Social Responsibility and Ethics Issues In Today's World 139
Managing Ethical Lapses and Social Irresponsibility 139
Social Entrepreneurship 140
Businesses Promoting Positive Social Change 141

Boxed Features

A Manager's Dilemma 124
LEADER WHO MADE A DIFFERENCE | *Yvon Chouinard* **128**
BY THE NUMBERS 132
My Response to A Manager's Dilemma 142

Chapter Summary by Learning Outcomes 143
Review and Discussion Questions 144
Preparing for: My Career 145
Case Application 1: Lessons from Lehman Brothers: Will We Ever Learn? 147
Case Application 2: Green Up on Aisle Two 148

Chapter 6 Managing Change and Innovation 150

The Change Process 152
Two Views of the Change Process 152

Types of Organizational Change 154
What Is Organizational Change? 155
Types of Change 155

Managing Resistance to Change 158
Why Do People Resist Change? 158
Techniques for Reducing Resistance to Change 158

Contemporary Issues in Managing Change 159
Changing Organizational Culture 159
Employee Stress 161
Making Change Happen Successfully 164

Stimulating Innovation 165
Creativity Versus Innovation 166
Stimulating and Nurturing Innovation 166

Boxed Features

A Manager's Dilemma 152
FUTURE VISION | *The Working World in 2020* 156
BY THE NUMBERS 162
LEADER WHO MADE A DIFFERENCE | *Ratan Tata* 168
My Response to A Manager's Dilemma 169

Chapter Summary by Learning Outcomes 170
Review and Discussion Questions 171
Preparing for: My Career 171
Case Application 1: Too Big to Change? 174
Case Application 2: Stress Kills 175

Part III Planning

Chapter 7 Managers as Decision Makers 176

The Decision-Making Process 178
Step 1: Identifying a Problem 179
Step 2: Identifying Decision Criteria 180
Step 3: Allocating Weights to the Criteria 180
Step 4: Developing Alternatives 181
Step 5: Analyzing Alternatives 181
Step 6: Selecting an Alternative 182
Step 7: Implementing the Alternative 182
Step 8: Evaluating Decision Effectiveness 182

Managers Making Decisions 182
Making Decisions: Rationality 183
Making Decisions: Bounded Rationality 183
Making Decisions: The Role of Intuition 184
Making Decisions: The Role of Evidence-Based Management 185

Types of Decisions and Decision-Making Conditions 185
Types of Decisions 185
Decision-Making Conditions 187

Decision-Making Styles 190
Linear–Nonlinear Thinking Style Profile 190
Decision-Making Biases and Errors 190
Overview of Managerial Decision Making 192

Effective Decision Making in Today's World 192

Boxed Features

A Manager's Dilemma 178
FUTURE VISION | *The Working World in 2020* 187
LEADER WHO MADE A DIFFERENCE | *Mikhail D. Prokhorov* 189
BY THE NUMBERS 193
My Response to A Manager's Dilemma 194

Chapter Summary by Learning Outcomes 195
Review and Discussion Questions 196
Preparing for: My Career 196
Case Application 1: The Curtain Falls 199
Case Application 2: Underwater Chaos 200

Chapter 8 Foundations of Planning 202

The What and Why of Planning 204
What Is Planning? 204
Why Do Managers Plan? 205
Planning and Performance 205

Goals and Plans 205
Types of Goals 206
Types of Plans 207

Setting Goals and Developing Plans 208
Approaches to Setting Goals 208
Developing Plans 211
Approaches to Planning 212

Contemporary Issues in Planning 212
How Can Managers Plan Effectively in Dynamic Environments? 213
How Can Managers Use Environmental Scanning? 214

Boxed Features
A Manager's Dilemma 204
LEADER WHO MADE A DIFFERENCE | *Jeff Bezos* **208**
BY THE NUMBERS 211
My Response to A Manager's Dilemma 215

Chapter Summary by Learning Outcomes 216
Review and Discussion Questions 217
Preparing for: My Career 217
Case Application 1: Icelandic Volcano, 1; Global Commerce, 0 219
Case Application 2: Building a Future 220

Chapter 9 Strategic Management 222

Strategic Management 224
What Is Strategic Management? 224
Why Is Strategic Management Important? 225

The Strategic Management Process 226
Step 1: Identifying the Organization's Current Mission, Goals, and Strategies 227
Step 2: Doing an External Analysis 227
Step 3: Doing an Internal Analysis 228
Step 4: Formulating Strategies 228
Step 5: Implementing Strategies 228
Step 6: Evaluating Results 228

Corporate Strategies 228
What Is Corporate Strategy? 228
What Are the Types of Corporate Strategy? 229
How Are Corporate Strategies Managed? 230

Competitive Strategies 231
The Role of Competitive Advantage 231
Choosing a Competitive Strategy 233

Current Strategic Management Issues 234
The Need for Strategic Leadership 235
The Need for Strategic Flexibility 236
Important Organizational Strategies for Today's Environment 236

Boxed Features

A Manager's Dilemma 224
LEADER WHO MADE A DIFFERENCE | *Ursula Burns* 230
BY THE NUMBERS 234
My Response to A Manager's Dilemma 239

Chapter Summary by Learning Outcomes 240
Review and Discussion Questions 241
Preparing for: My Career 242
Case Application 1: Gaga Over Gaga 244
Case Application 2: Faded Signal 246

Module Planning Tools and Techniques 248
Techniques for Assessing the Environment 248
Environmental Scanning 248
Forecasting 249
Benchmarking 251
Techniques for Allocating Resources 251
Budgeting 252
Scheduling 253
Breakeven Analysis 256
Linear Programming 257
Contemporary Planning Techniques 258
Project Management 258
Scenario Planning 259

Part IV Organizing

Chapter 10 Basic Organizational Design 262
Designing Organizational Structure 264
Work Specialization 265
Departmentalization 265
Chain of Command 268
Span of Control 271
Centralization and Decentralization 272
Formalization 273
Mechanistic and Organic Structures 273
Contingency Factors Affecting Structural Choice 274
Strategy and Structure 275
Size and Structure 275
Technology and Structure 275
Environmental Uncertainty and Structure 276
Traditional Organizational Designs 277
Simple Structure 277
Functional Structure 278
Divisional Structure 278

Boxed Features

A Manager's Dilemma 264
BY THE NUMBERS 273
LEADER WHO MADE A DIFFERENCE | *Andrea Jung* 276
My Response to A Manager's Dilemma 279

Chapter Summary by Learning Outcomes 280
Review and Discussion Questions 281
Preparing for: My Career 281
Case Application 1: Ask Chuck 283
Case Application 2: A New Kind of Structure 284

Chapter 11 Adaptive Organizational Design 286
Contemporary Organizational Designs 288
Team Structures 289
Matrix and Project Structures 290
The Boundaryless Organization 290
Learning Organizations 292
Organizing for Collaboration 293
Internal Collaboration 294
External Collaboration 295
Flexible Work Arrangements 297
Telecommuting 297
Compressed Workweeks, Flextime, and Job Sharing 298
Contingent Workforce 299
Today's Organizational Design Challenges 300
Keeping Employees Connected 300
Managing Global Structural Issues 301

Boxed Features
A Manager's Dilemma 288
FUTURE VISION | *The Working World in 2020* **292**
BY THE NUMBERS 297
LEADER WHO MADE A DIFFERENCE | *John T. Chambers* **301**
My Response to A Manager's Dilemma 302

Chapter Summary by Learning Outcomes 303
Review and Discussion Questions 304
Preparing for: My Career 304
Case Application 1: In the Driver's Seat 307
Case Application 2: The Virus Hunters 308

Chapter 12 Managing Human Resources 310
The Human Resource Management Process 312
Why Is HRM Important? 312
External Factors That Affect the HRM Process 313
Identifying and Selecting Competent Employees 318
Human Resource Planning 318
Recruitment and Decruitment 319
Selection 321
Providing Employees with Needed Skills and Knowledge 323
Orientation 323
Employee Training 324
Retaining Competent, High-Performing Employees 326
Employee Performance Management 326
Compensation and Benefits 326

Contemporary Issues in Managing Human Resources 328
Managing Downsizing 328
Managing Sexual Harassment 329
Managing Work–Life Balance 330
Controlling HR Costs 332

Boxed Features
A Manager's Dilemma 312
LEADER WHO MADE A DIFFERENCE | *Lisa Brummel* 317
BY THE NUMBERS 324
FUTURE VISION | *The Working World in 2020* 331
My Response to A Manager's Dilemma 333

Chapter Summary by Learning Outcomes 334
Review and Discussion Questions 335
Preparing for: My Career 336
Case Application 1: Thinking Outside the Box 338
Case Application 2: Social Connections 339

Module Managing Your Career 340
Career Opportunities in Management 340
Finding a Culture That Fits 340
Taking Risks 341
Reinventing Yourself 341
Learning to Get Along with Difficult People 341
What Do I Want from My Job? 342
How Can I Have a Successful Career? 342

Chapter 13 Managing Teams 344
Groups and Group Development 346
What Is a Group? 346
Stages of Group Development 346
Work Group Performance and Satisfaction 348
External Conditions Imposed on the Group 348
Group Member Resources 349
Group Structure 349
Group Tasks 356
Turning Groups into Effective Teams 357
What Is a Work Team? 357
Types of Work Teams 358
Creating Effective Work Teams 359
Current Challenges in Managing Teams 361
Managing Global Teams 361
Building Team Skills 363
Understanding Social Networks 363

Boxed Features
A Manager's Dilemma 346
BY THE NUMBERS 349
FUTURE VISION | *The Working World in 2020* 356
LEADER WHO MADE A DIFFERENCE | *Marissa Mayer* 361
My Response to A Manager's Dilemma 364

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Chapter Summary by Learning Outcomes 365
Review and Discussion Questions 366
Preparing for: My Career 366
Case Application 1: Aiming Higher 368
Case Application 2: Making Order Out of Chaos 369

Part V Leading

Chapter 14 Understanding Individual Behavior 370

Focus and Goals of Organizational Behavior 372
Focus of Organizational Behavior 372
Goals of Organizational Behavior 373

Attitudes and Job Performance 374
Job Satisfaction 377
Job Involvement and Organizational Commitment 377
Employee Engagement 377
Attitudes and Consistency 378
Cognitive Dissonance Theory 379
Attitude Surveys 379
Implications for Managers 380

Personality 380
MBTI® 381
The Big Five Model 382
Additional Personality Insights 382
Personality Types in Different Cultures 384
Emotions and Emotional Intelligence 385
Implications for Managers 386

Perception 387
Factors That Influence Perception 387
Attribution Theory 388
Shortcuts Used in Judging Others 389
Implications for Managers 390

Learning 390
Operant Conditioning 390
Social Learning 391
Shaping: A Managerial Tool 391
Implications for Managers 392

Contemporary Issues in Organizational Behavior 392
Managing Generational Differences 392
Managing Negative Behavior in the Workplace 394

Boxed Features
A Manager's Dilemma 372
LEADER WHO MADE A DIFFERENCE | *Chew Choon Seng* **380**
BY THE NUMBERS 383
FUTURE VISION | *The Working World in 2020* **385**
My Response to A Manager's Dilemma 395

Chapter Summary by Learning Outcomes 396
Review and Discussion Questions 397
Preparing for: My Career 398

Case Application 1: Understanding HCLites: Part 2 400
Case Application 2: Odd Couples 401

Chapter 15 Managers and Communication 402
The Nature and Function of Communication 404
What Is Communication? 404
Functions of Communication 405
Methods of Interpersonal Communication 406
Effective Interpersonal Communication 409
Barriers to Communication 409
Overcoming the Barriers 410
Organizational Communication 412
Formal Versus Informal Communication 412
Direction of Communication Flow 412
Organizational Communication Networks 413
Workplace Design and Communication 414
Information Technology and Communication 416
How Technology Affects Managerial Communication 416
How Information Technology Affects Organizations 417
Communication Issues in Today's Organizations 417
Managing Communication in an Internet World 417
Managing the Organization's Knowledge Resources 418
The Role of Communication in Customer Service 419
Getting Employee Input 420
Communicating Ethically 420
Boxed Features
A Manager's Dilemma 404

LEADER WHO MADE A DIFFERENCE | *Steve Jobs* 407
FUTURE VISION | *The Working World in 2020* 416
BY THE NUMBERS 418
My Response to A Manager's Dilemma 421
Chapter Summary by Learning Outcomes 422
Review and Discussion Questions 423
Preparing for: My Career 424
Case Application 1: Gossip Girls 425
Case Application 2: Delivery Disaster 426

Chapter 16 Motivating Employees 428
What Is Motivation? 430
Early Theories of Motivation 431
Maslow's Hierarchy of Needs Theory 431
McGregor's Theory X and Theory Y 432
Herzberg's Two-Factor Theory 433
Three-Needs Theory 434
Contemporary Theories of Motivation 435
Goal-Setting Theory 435
Reinforcement Theory 437
Designing Motivating Jobs 438
Equity Theory 441

Expectancy Theory 442
Integrating Contemporary Theories of Motivation 443
Current Issues in Motivation 445
Motivating in Tough Economic Circumstances 445
Managing Cross-Cultural Motivational Challenges 445
Motivating Unique Groups of Workers 447
Designing Appropriate Rewards Programs 449

Boxed Features

A Manager's Dilemma 430
LEADER WHO MADE A DIFFERENCE | *John Goodnight* **436**
FUTURE VISION | *The Working World in 2020* **447**
BY THE NUMBERS 449
My Response to A Manager's Dilemma 451

Chapter Summary by Learning Outcomes 452
Review and Discussion Questions 453
Preparing for: My Career 453
Case Application 1: Searching For? 455
Case Application 2: Best Practices at Best Buy 456

Chapter 17 Managers as Leaders 458
Who Are Leaders and What Is Leadership? 460
Early Leadership Theories 460
Leadership Trait Theories 461
Leadership Behavior Theories 462
Contingency Theories of Leadership 464
The Fiedler Model 464
Hersey and Blanchard's Situational Leadership Theory 466
Path-Goal Model 467
Contemporary Views of Leadership 469
Leader–Member Exchange (LMX) Theory 469
Transformational-Transactional Leadership 469
Charismatic-Visionary Leadership 470
Team Leadership 471
Leadership Issues in The Twenty-First Century 472
Managing Power 472
Developing Trust 473
Empowering Employees 474
Leading Across Cultures 475
Becoming an Effective Leader 476

Boxed Features

A Manager's Dilemma 460
LEADER WHO MADE A DIFFERENCE | *Ajay Banga* **469**
BY THE NUMBERS 471
My Response to A Manager's Dilemma 477

Chapter Summary by Learning Outcomes 478
Review and Discussion Questions 479
Preparing for: My Career 479
Case Application 1: Growing Leaders 482
Case Application 2: Master and Commander 483

Part VI Controlling

Chapter 18 Introduction to Controlling 484

What Is Controlling and Why Is It Important? 486

The Control Process 488

Step 1. Measuring Actual Performance 488
Step 2. Comparing Actual Performance Against the Standard 489
Step 3. Taking Managerial Action 490
Managerial Decisions in Controlling 491

Controlling for Organizational Performance 491

What Is Organizational Performance? 492
Measures of Organizational Performance 492

Tools for Measuring Organizational Performance 493

Feedforward/Concurrent/Feedback Controls 494
Financial Controls 495
Balanced Scorecard 496
Information Controls 497
Benchmarking of Best Practices 498

Contemporary Issues in Control 499

Adjusting Controls for Cross-Cultural Differences 499
Workplace Concerns 499
Workplace Violence 501
Controlling Customer Interactions 503
Corporate Governance 504

Boxed Features

A Manager's Dilemma 486
LEADER WHO MADE A DIFFERENCE | *Bob Iger* **498**
BY THE NUMBERS 500
My Response to A Manager's Dilemma 506

Chapter Summary by Learning Outcomes 507
Review and Discussion Questions 508
Preparing for: My Career 508
Case Application 1: Deepwater in Deep Trouble 510
Case Application 2: Baggage Blunders 511

Chapter 19 Managing Operations 514

The Role of Operations Management 516

Services and Manufacturing 517
Managing Productivity 517
Strategic Role of Operations Management 518

What Is Value Chain Management and Why Is It Important? 519

What Is Value Chain Management? 519
Goal of Value Chain Management 520
Benefits of Value Chain Management 520

Managing Operations Using Value Chain Management 521

Value Chain Strategy 521
Obstacles to Value Chain Management 524

Current Issues in Managing Operations 526
Technology's Role in Operations Management 526
Quality Initiatives 527
Quality Goals 528
Mass Customization and Lean Organization 529

Boxed Features
A Manager's Dilemma 516
LEADER WHO MADE A DIFFERENCE | *Muhtar Kent* 519
BY THE NUMBERS 525
My Response to A Manager's Dilemma 530

Chapter Summary by Learning Outcomes 531
Review and Discussion Questions 532
Preparing for: My Career 532
Case Application 1: Stirring Things Up 534
Case Application 2: Smooth Ride 535

Appendix Managing Entrepreneurial Ventures 537
The Context of Entrepreneurship 537
What Is Entrepreneurship? 537
Why Is Entrepreneurship Important? 538
The Entrepreneurial Process 538
What Do Entrepreneurs Do? 539
Social Responsibility and Ethics Issues Facing Entrepreneurs 539
Start-Up and Planning Issues 540
Identifying Environmental Opportunities and Competitive Advantage 540
Researching the Venture's Feasibility—Generating and Evaluating Ideas 543
Researching the Venture's Feasibility—Competitors 544
Researching the Venture's Feasibility—Financing 545
Planning the Venture—Developing a Business Plan 546
Organizing Issues 547
Legal Forms of Organization 547
Organizational Design and Structure 550
Human Resource Management Issues in Entrepreneurial Ventures 550
Stimulating and Making Changes 551
The Importance of Continuing Innovation 552
Leading Issues 552
Personality Characteristics of Entrepreneurs 552
Motivating Employees Through Empowerment 553
The Entrepreneur as Leader 554
Controlling Issues 555
Managing Growth 555
Managing Downturns 557
Exiting the Venture 558
Managing Personal Life Choices and Challenges 558

Endnotes 561
Name Index 607
Organization Index 624
Glindex 628
Photo Credits 643

Preface

You've made a good decision! You're taking a college course … maybe more than one. Although you may sometimes feel like you're wasting your time being in college, you're not. Yes, it's expensive. Yes, it's even sometimes hard. But what you're doing now will pay off in the long run. In a recent survey of job seekers, a whopping 92 percent said that a major disadvantage in competing for jobs was not having taken college courses. But that's not what you'll face because you *are* enrolled in a college course—the course for which you've purchased this book.

Key Changes to the 11th Edition

Here are some of the main changes we've made in the 11th edition:

- Two new chapters: Managing Diversity and Adaptive Organizational Design
- Two case applications in each chapter
- New *Leader Who Made a Difference* in each chapter
- New *By the Numbers* in each chapter
- New *Future Vision: The Working World in 2020* in 9 chapters
- New *A Manager's Dilemma* in each chapter
- 43 percent of the endnotes have been updated with references from 2009 and 2010
- New videos—up-to-date videos showing management topics in action, and access to the complete management video library, are available at www.mymanagementlab.com. Visit there to gain access and learn more.

What This Course Is About and Why It's Important

This course and this book are about management and managers. Managers are the one thing that all organizations—no matter the size, kind, or location—need. And there's no doubt that the world managers face has changed, is changing, and will continue to change. The dynamic nature of today's organizations means both rewards *and* challenges for the individuals who will be managing those organizations. Management is a dynamic subject, and a textbook on it should reflect those changes to help prepare you to manage under the current conditions. We've written this 11th edition of *Management* to provide you with the best possible understanding of what it means to be a manager confronting change.

Our Approach

Our approach to management is simple: Management is about people. Managers manage people. Thus, we introduce you to real managers, real people who manage people. We've talked with these real managers and asked them to share their experiences with you. You get to see what being a manager is all about—the problems these real managers have faced and how they have resolved those problems. Not only do you have the benefit of your professor's wisdom and knowledge, you also have access to your very own team of advisors and mentors.

What's Expected of You in This Course

It's simple. Come to class. Read the book. Do your assignments. And . . . study for your exams. If you want to get the most out of the money you've spent for this course and this textbook, that's what you need to do. In addition to writing this book, we have taught management classes. And that's what we expected of our students.

User's Guide

Your management course may be described as a "survey" course because a lot of topics are covered very quickly, and none of the topics are covered in great depth. It can be overwhelming at times! Your classroom professor is your primary source of information and will provide you with an outline of what you're expected to do during the course. That's also the person who will be evaluating your work and assigning you a grade, so pay attention to what is expected of you! View us, your textbook authors, as your supplementary professors. As your partners in this endeavor, we've provided you the best information possible both in the textbook and in the materials on mymanagementlab.com to help you succeed in this course. Now it's up to you to use them!

Getting the Most Out of Your Textbook: Getting a Good Grade in This Course

Professors use a textbook because it provides a compact source of information that you need to know about the course's subject material. Professors like this particular textbook because it presents management from the perspective of the people who actually *do* management—real managers. So take advantage of that and read what these real managers have to say. See how they've handled managerial problems. Learn about their management styles and think about how you might manage.

In addition to what you can learn from these real managers, we provide several ways to help you get a good grade in this course. Use the review and discussion questions at the end of the chapter. They provide a great way to see if you understand the material you've just read. Also, use the materials on mymanagementlab.

Mymanagementlab is a powerful online tool that combines assessment, reporting, and personalized study to help you succeed. Mymanagementlab gives you the opportunity to test yourself on key concepts and skills, track your own progress through the course, and use the personalized study plan activities—all to help achieve success in the classroom.

Finally, we include a wide variety of useful learning experiences both in the textbook and on mymanagementlab. From ethical dilemmas and skill-building exercises to case analyses and hands-on management tasks, we've provided a lot of things to make your management course fun and worthwhile. Your professor will tell you what assignments you will be expected to do. But you don't need to limit your learning experiences to those. Try out some of the other activities, even if they aren't assigned. We know you won't be disappointed!

Student Supplements

CourseSmart eTextbook

CourseSmart is an exciting new choice for students looking to save money. As an alternative to purchasing the print textbook, you can purchase an electronic version of the same content. With a CourseSmart etextbook, you can search the text, make notes online, print out reading assignments that incorporate lecture notes, and bookmark important passages for later review. For more information, or to purchase access to the CourseSmart eTextbook, visit www.coursesmart.com.

Mymanagementlab (www.mymanagementlab.com) is an easy to use online tool that personalizes course content and provides robust assessment and reporting to measure individual and class performance. All of the resources that students need for course success are in one place—flexible and easily adapted for your course experience. Some of the resources include an eText version of all chapters, quizzes, video clips, simulations, assessments, and PowerPoint presentations that engage students while helping them study independently.

Self-Assessment Library (S.A.L.)

If you are interested in additional self-assessments, this valuable tool includes 67 individual self-assessment exercises that allow you to assess your knowledge, beliefs, feelings, and actions in regard to a wide range of personal skills, abilities, and interests. Provided scoring keys allow for immediate, individual analysis. S.A.L. is available as a printed workbook, a CD-ROM, and by an access code, so you have a choice of how you want to complete the assessments. S.A.L. ISBN 0-13-608376-5.

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ELEVENTH EDITION

Management

CHAPTER 1

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Lacy Martin
Banking Center Manager
Assistant Vice President
Commerce Bank
Springfield, MO

MY JOB:
I'm a branch manager for Commerce Bank. I manage a team of individuals who help our customers with solutions to meet all their financial needs.

BEST PART OF MY JOB:
Watching my employees become successful top performers and grow their careers within the company.

Management *and* Organizations

LEARNING OUTCOMES

1.1 **Explain** why managers are important to organizations. *page 4*

1.2 **Tell** who managers are and where they work. *page 5*

1.3 **Describe** the functions, roles, and skills of managers. *page 8*

1.4 **Describe** the factors that are reshaping and redefining the manager's job. *page 13*

1.5 **Explain** the value of studying management. *page 17*

WORST PART OF MY JOB:

Customers who have had circumstances and decisions that have resulted in putting them in a dire financial state.

BEST MANAGEMENT ADVICE EVER RECEIVED:

A discussion about the importance of open and clear communication that was tied to the famous quote from the 1967 film *Cool Hand Luke*, **"What we've got here is a failure to communicate."**

A Manager's Dilemma

12.7 million. That's the total number of people employed in the restaurant industry according to the National Restaurant Association.[1] Those employees hold jobs ranging from greeting and serving customers to cooking for and cleaning up after customers. There's a lot of action taking place in a restaurant—sometimes calm and sometimes frenetic—as employees work together to provide customers what they want. And overseeing those employees is someone who must ensure that everything runs smoothly.

That someone is a manager. Lisa Greene is one such manager. As the general manager of a popular and very busy restaurant in Springfield, Missouri, she oversees 100 employees. Working long hours, Lisa is expected to lead her team and uphold the company's high standards so employees can do their assigned work efficiently and effectively. Like any hard-working manager, Lisa is continually trying to find ways to cut costs and make her restaurant run a little more smoothly. But her most important challenge comes from looking for ways to make her restaurant a better place to work. Put yourself in Lisa's place.

What Would You Do?

Like many students, maybe you've worked in the restaurant industry at some time or another. It's not an easy job. It can be hot, dirty, and exhausting. Customers can be rude and demanding. And your work experiences, whether in a restaurant or in some other workplace, are likely to have been influenced by the skills and abilities of your manager. Lisa is a good example of what today's successful managers are like and the skills they must have in dealing with the problems and challenges of managing in the twenty-first century. This book is about the important managerial work that Lisa and the millions of other managers like her do. The reality facing today's managers is that the world has changed. In workplaces of all types—restaurants, offices, retail stores, factories, and the like—managers must deal with changing expectations and new ways of managing employees and organizing work. In this chapter, we introduce you to managers and management by looking at why managers are important, who managers are and where they work, and what managers do. Finally, we wrap up the chapter by looking at the factors reshaping and redefining the manager's job and discussing why it's important to study management.

LEARNING OUTCOME 1.1

Explain why managers are important to organizations.

Why Are Managers Important?

" . . . A great boss can change your life, inspiring you to new heights both professionally and personally, and energizing you and your team to together overcome new challenges bigger than any one of you could tackle alone."[2] If you've had the opportunity to work with a manager like this, count yourself lucky. Such a manager can make a job a lot more enjoyable and productive. However, even managers who don't live up to such lofty ideals and expectations are important to organizations. Let's look at three reasons why.

The first reason managers are important is that organizations need their managerial skills and abilities more than ever in these uncertain, complex, and chaotic times. As organizations deal with today's challenges—the worldwide economic climate, changing technology, ever-increasing globalization, and so forth—managers play an important role in identifying critical issues and crafting responses. For example, John Zapp, general manager of several car dealerships in Oklahoma City, has struggled to keep his businesses afloat and profitable in the current economic environment, just as many other car dealers have.[3] However, after four decades in the car business, Zapp understands that he's the one calling the shots and his "call" right now is to focus on selling more used cars. How? By keeping inventory moving and by keeping his salespeople engaged through small cash payment rewards for hitting sales goals. His skills and abilities as a manager have been crucial in guiding his organization through these challenging times.

Another reason managers are important to organizations is that they're critical to getting things done. For instance, in our chapter-opening story, Lisa wasn't the person greeting and

seating customers, taking their orders, cooking their meals, or preparing a table for another customer, but she was the person who creates and coordinates the workplace systems and conditions so that others can perform those tasks. Although she often pitches in when and where needed, her job as manager is to ensure that all the employees are getting their jobs done so the organization can do what it's in business to do. If work isn't getting done or isn't getting done as it should be, she's also the one who must find out why and get things back on track.

Finally, *managers do matter* to organizations! How do we know that? The Gallup Organization, which has polled millions of employees and tens of thousands of managers, has found that the single most important variable in employee productivity and loyalty isn't pay or benefits or workplace environment; it's the quality of the relationship between employees and their direct supervisors.[4] In addition, global consulting firm Towers Watson found that the way a company manages and engages its people can significantly affect its financial performance.[5] Also, a recent study of organizational performance found that managerial ability was important in creating organizational value.[6] What can we conclude from such reports? That managers are important and they *do* matter!

Who Are Managers and Where Do They Work?

1.2

LEARNING OUTCOME
Tell who managers are and where they work.

Managers may not be who or what you might expect! Managers can be under the age of 18 to over age 80. They run large corporations as well as entrepreneurial start-ups. They're found in government departments, hospitals, small businesses, not-for-profit agencies, museums, schools, and even such nontraditional organizations as political campaigns and music tours. Managers can also be found doing managerial work in every country on the globe. In addition, some managers are top-level managers while others are first-line managers. And today, managers are just as likely to be women as they are men. However, the number of women in top-level manager positions remains low—only 27 women were CEOs of major U.S. corporations in 2010.[8] But no matter where managers are found or what gender they are, the fact is . . . managers have exciting and challenging jobs!

Who Is a Manager?

It used to be fairly simple to define who managers were: They were the organizational members who told others what to do and how to do it. It was easy to differentiate *managers* from *nonmanagerial employees.* Now, it isn't quite that simple. In many organizations, the changing nature of work has blurred the distinction between managers and nonmanagerial employees. Many traditional nonmanagerial jobs now include managerial activities.[9] For example, at General Cable Corporation's facility in Moose Jaw, Saskatchewan, Canada, managerial responsibilities are shared by managers and team members. Most of the employees at Moose Jaw are cross-trained and multi-skilled. Within a single shift, an employee can be a team leader, equipment operator, maintenance technician, quality inspector, or improvement planner.[10]

So, how *do* we define who managers are? A **manager** is someone who coordinates and oversees the work of other people so that organizational goals can be accomplished. A manager's job is not about *personal* achievement—it's about helping *others* do their work. That may mean coordinating the work of a departmental group, or it might mean supervising a single person. It could involve coordinating the work activities of a team with people from different departments or even people outside the organization, such as temporary employees or individuals who work for the organization's suppliers. Keep in mind, also, that

manager
Someone who coordinates and oversees the work of other people so that organizational goals can be accomplished

by the numbers[7]

8 percent of job applicants say that a good rapport with the manager is most important when considering a new employer.

42 percent of individuals ages 18–34 say they do not want to become a manager.

#1 – the rank of people skills as the most valued skill in job applicants.

28 percent of people would lay off/fire their boss if given the option.

51 percent of workers say they do not have qualified managers.

52 percent of workers say their boss is likable.

3 times—when managers are disengaged from their work, their employees are 3 times as likely to be disengaged from their work.

35 percent of employees who have quit their jobs say it's because of unhappiness with management.

30 percent of white-collar workers think incompetence is what makes for a bad boss.

As brand manager with Little Kids, Inc., Kate Boehnert is a middle manager responsible for the quality and successful promotion of the company's line of bubble toys. In this photo, she demonstrates during a toy trade show how the motorized Bubble Light blows bubbles. Brand managers work with product developers, salespeople, copywriters, and advertising directors to coordinate the production, distribution, and marketing of their product line. They analyze sales figures, set prices, organize advertising campaigns, explore different marketing strategies, and contact retailers to convince them to carry their brands. Successful brand managers may advance to a top management position.

managers may have work duties not related to coordinating and overseeing others' work. For example, an insurance claims supervisor might process claims in addition to coordinating the work activities of other claims clerks.

Is there a way to classify managers in organizations? In traditionally structured organizations (which are often pictured as a pyramid because more employees are at lower organizational levels than at upper organizational levels), managers can be classified as first-line, middle, or top. (See Exhibit 1-1.) At the lowest level of management, **first-line managers** manage the work of nonmanagerial employees who typically are involved with producing the organization's products or servicing the organization's customers. First-line managers may be called *supervisors* or even *shift managers*, *district managers*, *department managers*, or *office managers*. **Middle managers** manage the work of first-line managers and can be found between the lowest and top levels of the organization. They may have titles such as *regional manager*, *project leader*, *store manager*, or *division manager.* In our chapter-opening dilemma, Lisa is a middle manager. As the general manager, she's responsible for how her restaurant performs, but also is one of about 60 general managers company-wide who report to someone at corporate headquarters. At the upper levels of the organization are the **top managers**, who are responsible for making organization-wide decisions and establishing the plans and goals that affect the entire organization. These individuals typically have titles such as *executive vice president*, *president*, *managing director*, *chief operating officer*, or *chief executive officer.*

Not all organizations get work done with a traditional pyramidal form, however. Some organizations, for example, are more loosely configured with work being done by ever-changing teams of employees who move from one project to another as work demands arise. Although it's not as easy to tell who the managers are in these organizations, we do know that someone must fulfill that role—that is, there must be someone who coordinates and oversees the work of others, even if that "someone" changes as work tasks or projects change.

Where Do Managers Work?

It's obvious that managers do their work in organizations. But what is an **organization**? It's a deliberate arrangement of people to accomplish some specific purpose. Your college or university is an organization; so are fraternities and sororities, government departments, churches, Facebook, your neighborhood grocery store, the United Way, the St. Louis Cardinals baseball team, and the Mayo Clinic. All are considered organizations and have three common characteristics. (See Exhibit 1-2.)

First, an organization has a distinct purpose. This purpose is typically expressed through goals that the organization hopes to accomplish. Second, each organization is composed of people. It takes people to perform the work that's necessary for the organization to achieve its goals. Third, all organizations develop some deliberate structure within which members

EXHIBIT 1-1
Levels of Management

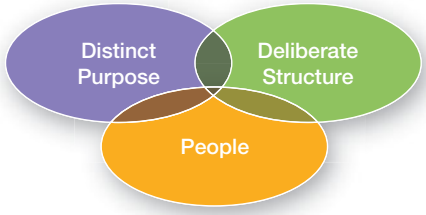


EXHIBIT 1-2
Characteristics of Organizations

do their work. That structure may be open and flexible, with no specific job duties or strict adherence to explicit job arrangements. For instance, at Google, most big projects, of which there are hundreds going on at the same time, are tackled by small focused employee teams that set up in an instant and complete work just as quickly.[11] Or the structure may be more traditional—like that of Procter & Gamble or General Electric—with clearly defined rules, regulations, job descriptions, and some members identified as "bosses" who have authority over other members.

Many of today's organizations are structured more like Google, with flexible work arrangements, employee work teams, open communication systems, and supplier alliances. In these organizations, work is defined in terms of tasks to be done. And workdays have no time boundaries since work can—and is—done anywhere, anytime.

FUTURE VISION — The Working World in 2020

A noted inventor once said, "My interest is in the future because I'm going to spend the rest of my life there."[12] While this book presents a fairly accurate description of today's workplace, you're going to spend most of your worklife in the future. What will that worklife look like? How will it be different from today?

Although no one has a perfectly accurate window to the future, certain trends in place today offer insights into what tomorrow holds. We can extrapolate from those trends to sneak a peek at the future. We've arbitrarily chosen to focus on the year 2020 because it's close enough that most of you will be actively in the workforce, yet far enough away that current managerial practices are likely to have changed because they've become irrelevant or even obsolete.

In 2000, Malcolm Gladwell's popular book *The Tipping Point* looked at how major changes in our society occur. (Even at more than 10 years old, it's an interesting read and we recommend it!) Many demographers have said that 2010 could be a tipping point for the composition of the U.S. population. That's the year it's predicted that "the number of babies born to minorities outnumbers that of babies born to whites." This is yet another trend indicator in which minorities are expected to become the U.S. majority over the next 40 years. Although this demographic shift has been documented since the early 1990s, it appears that the "tipping point" has been reached. Although this event has numerous societal implications, we're more interested in the implications for the work world that you'll be part of. Implications such as: What will employee hiring and selection processes be like? How will employee training programs change? How will employee reward programs be set up? Who will become the role models and business leaders that guide and shape our businesses? We will look at these types of issues in our Future Vision boxes located in various chapters. So strap on your visionary goggles and enjoy this intriguing look at the future! After all, you're going to be spending the rest of your life there!

first-line managers
Managers at the lowest level of management who manage the work of nonmanagerial employees

middle managers
Managers between the lowest level and top levels of the organization who manage the work of first-line managers

top managers
Managers at or near the upper levels of the organization structure who are responsible for making organization-wide decisions and establishing the goals and plans that affect the entire organization

organization
A deliberate arrangement of people to accomplish some specific purpose

However, no matter what type of approach an organization uses, some deliberate structure is needed so work can get done, with managers overseeing and coordinating that work.

LEARNING OUTCOME 1.3
Describe the functions, roles, and skills of managers.

What Do Managers Do?

Simply speaking, management is what managers do. But that simple statement doesn't tell us much, does it? Let's look first at what management is before discussing more specifically what managers do.

Management involves coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively. We already know that coordinating and overseeing the work of others is what distinguishes a managerial position from a nonmanagerial one. However, this doesn't mean that managers can do what they want anytime, anywhere, or in any way. Instead, management involves ensuring that work activities are completed efficiently and effectively by the people responsible for doing them, or at least that's what managers aspire to do.

Efficiency refers to getting the most output from the least amount of inputs. Because managers deal with scarce inputs—including resources such as people, money, and equipment—they're concerned with the efficient use of those resources. It's often referred to as "doing things right"—that is, not wasting resources. For instance, at the HON Company plant in Cedartown, Georgia, where employees make and assemble office furniture, efficient manufacturing techniques were implemented by doing things such as cutting inventory levels, decreasing the amount of time to manufacture products, and lowering product reject rates. These efficient work practices paid off as the plant reduced costs by more than $7 million in one year.[13]

Qwerty on KAT.PH for more

It's not enough, however, just to be efficient. Management is also concerned with being effective, completing activities so that organizational goals are attained. **Effectiveness** is often described as "doing the right things"—that is, doing those work activities that will help the organization reach its goals. For instance, at the HON factory, goals included meeting customers' rigorous demands, executing world-class manufacturing strategies, and making employee jobs easier and safer. Through various work initiatives, these goals were pursued *and* achieved. Whereas efficiency is concerned with the *means* of getting things done, effectiveness is concerned with the *ends*, or attainment of organizational goals (see Exhibit 1-3). In successful organizations, high efficiency and high effectiveness typically go hand in hand. Poor management (which leads to poor performance) usually involves being inefficient and ineffective or being effective, but inefficient.

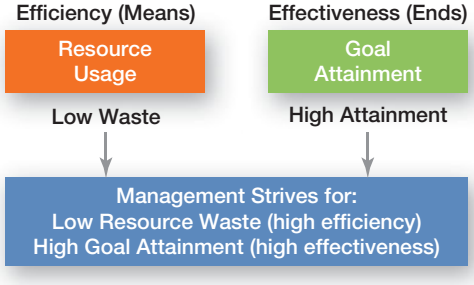
Now let's take a more detailed look at what managers do. Describing what managers do isn't easy. Just as no two organizations are alike, no two managers' jobs are alike. In spite of this, management researchers have developed three approaches to describe what managers do: functions, roles, and skills.

Let's Get Real

F2F

Efficiency is important in my job because *customers expect us to be efficient and accurate when conducting their business and it is always important to deliver on the customer's expectation.*

EXHIBIT 1-3
Efficiency and Effectiveness in Management



Management Functions

According to the functions approach, managers perform certain activities or functions as they efficiently and effectively coordinate the work of others. What are these functions? Henri Fayol, a French businessman, first proposed in the early part of the twentieth century that all managers perform five functions: planning, organizing, commanding, coordinating, and controlling.[14] Today, these functions have been condensed to four: planning, organizing, leading, and controlling (see Exhibit 1-4). Let's briefly look at each function.

If you have no particular destination in mind, then any road will do. However, if you have someplace in particular you want to go, you've got to plan the best way to get there. Because organizations exist to achieve some particular purpose, someone must define that purpose and the means for its achievement. Managers are that someone. As managers engage in **planning**, they set goals, establish strategies for achieving those goals, and develop plans to integrate and coordinate activities.

Managers are also responsible for arranging and structuring work to accomplish the organization's goals. We call this function **organizing**. When managers organize, they determine what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

Every organization has people, and a manager's job is to work with and through people to accomplish goals. This is the **leading** function. When managers motivate subordinates, help resolve work group conflicts, influence individuals or teams as they work, select the most effective communication channel, or deal in any way with employee behavior issues, they're leading.

The final management function is **controlling**. After goals and plans are set (planning), tasks and structural arrangements put in place (organizing), and people hired, trained, and motivated (leading), there has to be some evaluation of whether things are going as planned. To ensure that goals are being met and that work is being done as it should be, managers must monitor and evaluate performance. Actual performance must be compared with the set goals. If those goals aren't being achieved, it's the manager's job to get work back on track. This process of monitoring, comparing, and correcting is the controlling function.

Just how well does the functions approach describe what managers do? Do managers always plan, organize, lead, and then control? In reality, what a manager does may not

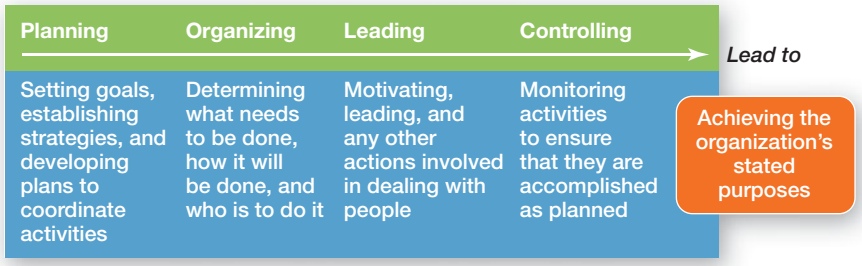


EXHIBIT 1-4
Four Functions of Management

management
Coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively

efficiency
Doing things right, or getting the most output from the least amount of inputs

effectiveness
Doing the right things, or completing activities so that organizational goals are attained

planning
Management function that involves setting goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities

organizing
Management function that involves arranging and structuring work to accomplish the organization's goals

leading
Management function that involves working with and through people to accomplish organizational goals

controlling
Management function that involves monitoring, comparing, and correcting work performance

Let's Fly Together is the slogan of a merger undertaken by the top managers of United Airlines and Continental Airlines that will form the world's largest airline. United's CEO Glenn Tilton (left) and Continental's CEO Jeff Smisek stated that the merger strategy will achieve the goals of creating a combined airline that is more efficient and better positioned as a strong global competitor, that has the financial strength needed to make investments in improved products and services, and that can achieve and sustain profitability. Plans for the combined airline include flying under the United name and using the logo and colors of Continental.

always happen in this sequence. Regardless of the "order" in which these functions are performed, however, the fact is that managers do plan, organize, lead, and control as they manage. To illustrate, look back at the chapter-opening story. When Lisa is working to keep her employees motivated and engaged, that's leading. As she makes out the week's schedule, that's planning. When she is trying to cut costs, those actions obviously involve controlling. And dealing with unhappy customers is likely to involve leading, controlling, and maybe even planning.

Although the functions approach is popular for describing what managers do, some have argued that it isn't relevant.[15] So let's look at another perspective.

Mintzberg's Managerial Roles and a Contemporary Model of Managing

Henry Mintzberg, a well-known management researcher, studied actual managers at work. In his first comprehensive study, Mintzberg concluded that what managers do can best be described by looking at the managerial roles they engage in at work.[16] The term **managerial roles** refers to specific actions or behaviors expected of and exhibited by a manager. (Think of the different roles you play—such as student, employee, student organization member, volunteer, sibling, and so forth—and the different things you're expected to do in these roles.) When describing what managers do from a roles perspective, we're not looking at a specific person per se, but at the expectations and responsibilities that are associated with being the person in that role—the role of a manager.[17] As shown in Exhibit 1-5, these 10 roles are grouped around interpersonal relationships, the transfer of information, and decision making.

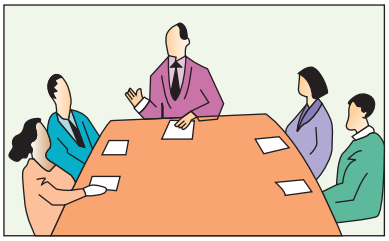
The **interpersonal roles** are ones that involve people (subordinates and persons outside the organization) and other duties that are ceremonial and symbolic in nature. The three interpersonal roles include figurehead, leader, and liaison. The **informational roles** involve collecting, receiving, and disseminating information. The three informational roles include monitor, disseminator, and spokesperson. Finally, the **decisional roles** entail making decisions or choices. The four decisional roles include entrepreneur, disturbance handler, resource allocator, and negotiator.

As managers perform these roles, Mintzberg proposed that their activities included both reflection (thinking) and action (doing).[18] Our manager in the chapter opener would do both as she manages. For instance, reflection would occur when Lisa listens to employees' or customers' problems, while action would occur when she resolves those problems.

EXHIBIT 1-5
Mintzberg's Managerial Roles

Interpersonal Roles

- Figurehead
- Leader
- Liaison

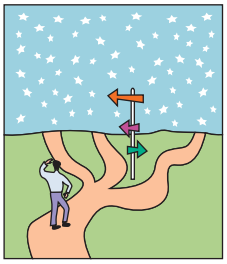


Informational Roles

- Monitor
- Disseminator
- Spokesperson

Decisional Roles

- Entrepreneur
- Disturbance handler
- Resource allocator
- Negotiator



Based on Mintzberg, Henry, *The Nature of Managerial Work,* 1st Edition, © 1980, pp. 93–94.

A number of follow-up studies have tested the validity of Mintzberg's role categories and the evidence generally supports the idea that managers—regardless of the type of organization or level in the organization—perform similar roles.[19] However, the emphasis that managers give to the various roles seems to change with organizational level.[20] At higher levels of the organization, the roles of disseminator, figurehead, negotiator, liaison, and spokesperson are more important; while the leader role (as Mintzberg defined it) is more important for lower-level managers than it is for either middle or top-level managers.

Recently, Mintzberg completed another hands-on and up-close study of managers at work and concluded that, "Basically, managing is about influencing action. It's about helping organizations and units to get things done, which means action."[21] Based on his observations, Mintzberg went on to explain that a manager does this in three ways: (1) by managing actions directly (for instance, negotiating contracts, managing projects, etc.), (2) by managing people who take action (for example, motivating them, building teams, enhance the organization's culture, etc.), or (3) by managing information that propels people to take action (using budgets, goals, task delegation, etc.). The manager at the center of the model has two roles—framing, which defines how a manager

managerial roles
Specific actions or behaviors expected of and exhibited by a manager

interpersonal roles
Managerial roles that involve people and other duties that are ceremonial and symbolic in nature

informational roles
Managerial roles that involve collecting, receiving, and disseminating information

decisional roles
Managerial roles that revolve around making choices

"You can't expect people to do a good job at work if their lives are a mess."[23] That's the philosophy of Panda Express founder and chairman, Andrew Cherng. Together with his wife Peggy, they have built a restaurant empire with more than 1,200 outlets and $1 billion in sales. They believe that a company is only as good as the employees who comprise it. In fact, he says that his company's success doesn't come just from the meals prepared in the kitchen, but because "he cares about the emotional well-being of his employees." With five guiding values—being proactive, showing respect/-having a win-win attitude, pursuing growth, having great operations, and being giving—and a caring and strong management team, this company has prospered. What can you learn from this leader who made a difference?

approaches his or her job; and scheduling, which "brings the frame to life" through the distinct tasks the manager does. A manager enacts these roles while managing action in the three "planes:" with information, through people, and sometimes by taking action directly. It's an interesting perspective on the manager's job and one that adds to our understanding of what it is that managers do.

So which approach is better—managerial functions or Mintzberg's propositions? Although each does a good job of depicting what managers do, the functions approach still seems to be the generally accepted way of describing the manager's job. "The classical functions provide clear and discrete methods of classifying the thousands of activities that managers carry out and the techniques they use in terms of the functions they perform for the achievement of goals."[22] However, Mintzberg's role approach and newly developed model of managing do offer us other insights into managers' work.

Management Skills

Dell Inc. is a company that understands the importance of management skills.[24] It started an intensive five-day offsite skills training program for first-line managers as a way to improve its operations. One of Dell's directors of learning and development thought this was the best way to develop "leaders who can build that strong relationship with their front-line employees." What have the supervisors learned from the skills training? Some things they mentioned were how to communicate more effectively and how to refrain from jumping to conclusions when discussing a problem with a worker.

What types of skills do managers need? Robert L. Katz proposed that managers need three critical skills in managing: technical, human, and conceptual.[25] (Exhibit 1-6 shows the relationships of these skills to managerial levels.) **Technical skills** are the job-specific knowledge and techniques needed to proficiently perform work tasks. These skills tend to be more important for first-line managers because they typically are managing employees who use tools and techniques to produce the organization's products or service the organization's customers. Often, employees with excellent technical skills get promoted to first-line manager. For example, Mark Ryan of Verizon Communications manages almost 100 technicians who service half a million of the company's customers. Before becoming a manager, however, Ryan was a telephone lineman. He says, "The technical side of the business is important, but managing people and rewarding and recognizing the people who do an outstanding job is how we (Verizon) are going to succeed."[26] Ryan is a manager who has technical skills, but also recognizes the importance of **human skills**, which involve the ability to work well with other people both individually and in a group. Because all managers deal with people, these skills are equally important to all levels of management. Managers with good human skills

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EXHIBIT 1-6
Skills Needed at Different Managerial Levels

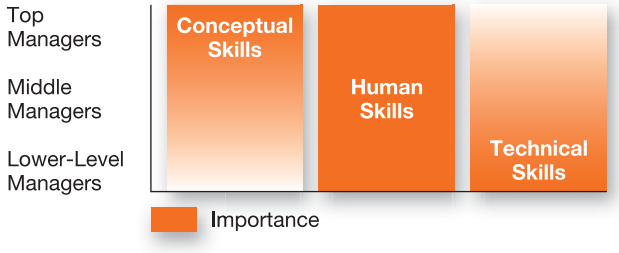


EXHIBIT 1-7
Important Managerial Skills

- Managing human capital
- Inspiring commitment
- Managing change
- Structuring work and getting things done
- Facilitating the psychological and social contexts of work
- Using purposeful networking
- Managing decision-making processes
- Managing strategy and innovation
- Managing logistics and technology

Based on "Dear Workforce: We're Developing Onboarding for New Managers: What Should Be Included?" *Workforce Online,* March 4, 2010; J. R. Ryan, "The Coming Leadership Gap: What You Can Do About It," *Bloomberg BusinessWeek Online,* December 15, 2009; In-Sue Oh and C. M. Berry, "The Five Factor Model of Personality and Managerial Performance: Validity Gains Through the Use of 360 Degree Performance Ratings," *Journal of Applied Psychology,* November 2009, pp. 1498–1513; and R. S. Rubin and E. C. Dierdorff, "How Relevant Is the MBA? Assessing the Alignment of Required Curricula and Required Managerial Competencies," *Academy of Management Learning & Education,* June 2009, pp. 208–224.

get the best out of their people. They know how to communicate, motivate, lead, and inspire enthusiasm and trust. Finally, **conceptual skills** are the skills managers use to think and to conceptualize about abstract and complex situations. Using these skills, managers see the organization as a whole, understand the relationships among various subunits, and visualize how the organization fits into its broader environment. These skills are most important to top managers.

Other important managerial skills that have been identified are listed in Exhibit 1-7. In today's demanding and dynamic workplace, employees who want to be valuable assets must constantly upgrade their skills, and developing management skills can be particularly beneficial in today's workplace. We feel that understanding and developing management skills is so important that we've included a skills feature at the end of each chapter. (The one in this chapter looks at developing your political skill.) In addition, you'll find other material on skill building as well as several interactive skills exercises in our mymanagementlab. As you study the four management functions throughout the rest of the book, you'll be able to start developing some key management skills. Although a simple skill-building exercise won't make you an instant expert, it can provide you an introductory understanding of some of the skills you'll need to master in order to be an effective manager.

How Is the Manager's Job Changing?

1.4 LEARNING OUTCOME
Describe the factors that are reshaping and redefining the manager's job.

"At Best Buy's headquarters, more than 60 percent of the 4,000 employees are now judged only on tasks or results. Salaried people put in as much time as it takes to do their work. Those employees report better relationships with family and friends, more company loyalty, and more focus and energy. Productivity has increased by 35 percent. Employees say they don't know whether they work fewer hours—they've stopped counting. Perhaps more important, they're finding new ways to become efficient."[27] Welcome to the new world of managing!

In today's world, managers are dealing with global economic and political uncertainties, changing workplaces, ethical issues, security threats, and changing technology. For example,

technical skills
Job-specific knowledge and techniques needed to proficiently perform work tasks

human skills
The ability to work well with other people individually and in a group

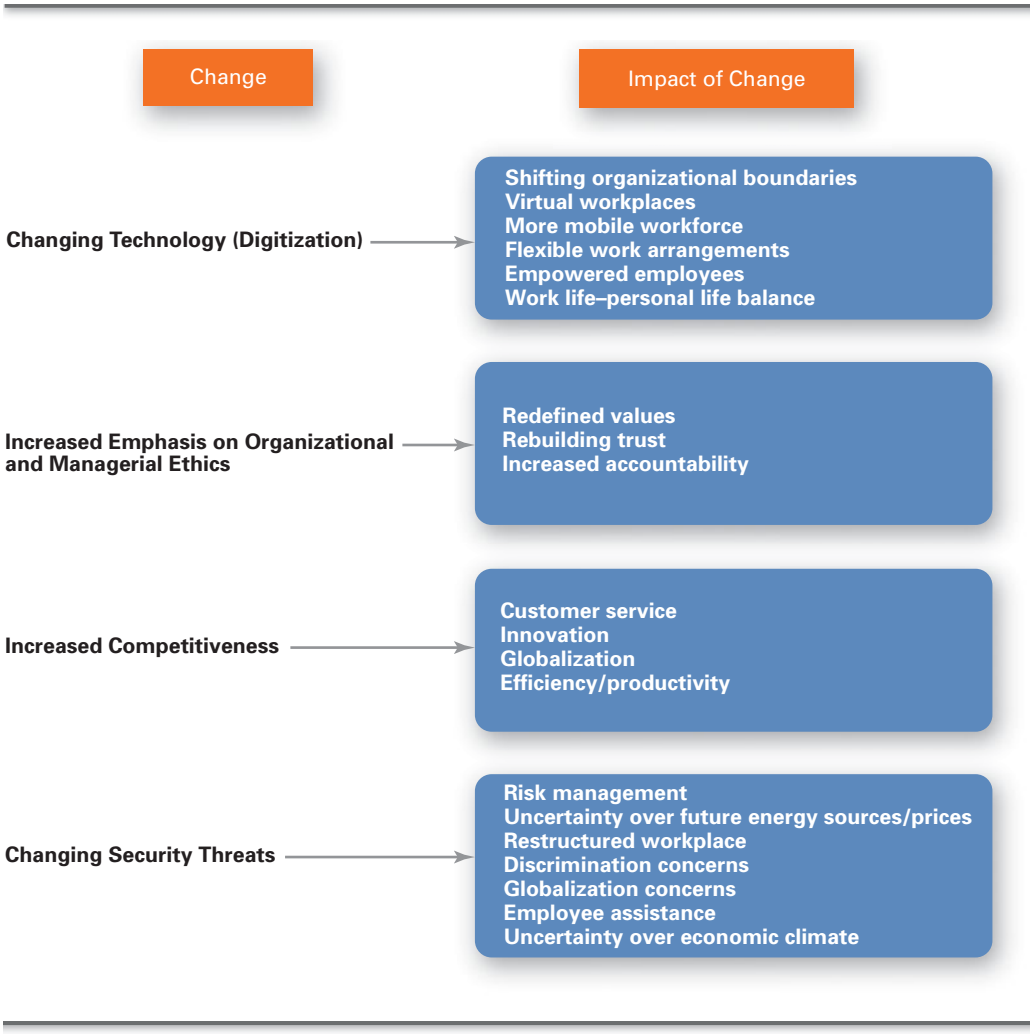
conceptual skills
The ability to think and to conceptualize about abstract and complex situations

Dave Maney, the top manager of Headwaters MB, a Denver-based investment bank, had to fashion a new game plan during the recession. When the company's board of directors gave senior management complete freedom to ensure the company's survival, they made a bold move. All but seven key employees were laid off. Although this doesn't sound very responsible or resourceful, it invited those laid-off employees to form independent member firms. Now, Headwaters steers investment transactions to those firms, while keeping a small percentage for itself. The "restructuring drastically reduced fixed costs and also freed management to do more marketing, rather than day-to-day investment banking transactions." As Maney said, "It was a good strategy for us and positioned us for the future."[28] It's likely that more managers *will* have to manage under such demanding circumstances, and the fact is that *how* managers manage is changing. Exhibit 1-8 shows some of the most important changes facing managers. Throughout the rest of this book, we'll be discussing these and other changes and how they're affecting the way managers plan, organize, lead, and control. We want to highlight three of these changes: the increasing importance of customers, innovation, and sustainability.

Importance of Customers to the Manager's Job

John Chambers, CEO of Cisco Systems, likes to listen to voice mails forwarded to him from dissatisfied customers. He says, "E-mail would be more efficient, but I want to hear the emotion, I want to hear the frustration, I want to hear the caller's level of comfort

EXHIBIT 1-8
Changes Facing Managers



with the strategy we're employing. I can't get that through e-mail."[29] This manager understands the importance of customers. You need customers. Without them, most organizations would cease to exist. Yet, focusing on the customer has long been thought to be the responsibility of marketing types. "Let the marketers worry about the customers" is how many managers felt. We're discovering, however, that employee attitudes and behaviors play a big role in customer satisfaction. For instance, passengers of Qantas Airways were asked to rate their "essential needs" in air travel. Almost every factor listed was one directly influenced by the actions of company employees—from prompt baggage delivery, to courteous and efficient cabin crews, to assistance with connections, to quick and friendly check-ins.[30]

Today, the majority of employees in developed countries work in service jobs. For instance, some 77 percent of the U.S. labor force is employed in service industries. In Australia, 71 percent work in service industries. In the United Kingdom, Germany, and Japan the percentages are 75, 72, and 75, respectively. Even in developing countries like India and Russia, we find 63 percent and 58 percent of the labor force employed in service jobs.[31] Examples of service jobs include technical support representatives, food servers or fast-food counter workers, sales clerks, teachers, nurses, computer repair technicians, front desk clerks, consultants, purchasing agents, credit representatives, financial planners, and bank tellers. The odds are pretty good that when you graduate you'll go to work for a company that's in a service industry, not in manufacturing or agriculture.

Managers are recognizing that delivering consistent high-quality customer service is essential for survival and success in today's competitive environment and that employees are an important part of that equation.[32] The implication is clear—managers must create a customer-responsive organization where employees are friendly and courteous, accessible, knowledgeable, prompt in responding to customer needs, and willing to do what's necessary to please the customer.[33] We'll look at customer service management in several chapters. Before we leave this topic, though, we want to share one more story that illustrates why it's important for today's managers (all managers, not just those in marketing) to understand what it takes to serve customers. During a broadcasted Stanley Cup playoff game, Comcast subscribers suddenly found themselves staring at a blank screen. Many of those customers got on Twitter to find out why. And it was there, not on a phone system, that they discovered a lightning strike in Atlanta had caused the power outage and that transmission would be restored as quickly as possible. Managers at Comcast understood how to exploit popular communications technology

These kids and teens playing Nintendo's DS portable video game in front of the official Pokemon store in Tokyo illustrates the importance of innovation in the company's worldwide leadership within the interactive entertainment industry. Nintendo continues to create unique video games for young people. But the company's innovation strategy also focuses on exploring new territory to launch new products, such as Wii, that cultivate a new wave of customers. Nintendo plans to further expand the concept of what a video game is, redefining it to include anything that brings people joy, from music to health management.

and the company's smart use of Twitter "underscores what is becoming a staple in modern-day customer service . . . beefing up communications with customers through social-media tools."[34]

Importance of Innovation to the Manager's Job

"Nothing is more risky than not innovating."[35]Innovation means doing things differently, exploring new territory, and taking risks. And innovation isn't just for high-tech or other technologically sophisticated organizations. Innovative efforts can be found in all types of organizations. For instance, the manager of the Best Buy store in Manchester, Connecticut, clearly understood the importance of getting employees to be innovative, a task made particularly challenging because the average Best Buy store is often staffed by young adults in their first or second jobs. "The complexity of the products demands a high level of training, but the many distractions that tempt college-aged employees keep the turnover potential high." However, the store manager tackled the problem by getting employees to suggest new ideas. One idea—a "team close," in which employees scheduled to work at the store's closing time, closed the store together and walked out together as a team—has had a remarkable impact on employee attitudes and commitment.[36] As you'll see throughout the book, innovation is critical throughout all levels and parts of an organization. For example, at Tata of India, the company's top manager, chairman Ratan Tata, told his employees during the bleak aspects of the global economic downturn to "Cut costs. Think out of the box. Even if the world around you is collapsing, be bold, be daring, think big."[37] And his employees obviously got the message. The company's introduction of the $2,000 minicar, the Nano, was the talk of the global automotive industry. As these stories illustrate, innovation is critical. It's so critical to today's organizations and managers that we'll also address this topic in several chapters.

Importance of Sustainability to the Manager's Job

It's the world's largest retailer with more than $408 billion in annual sales, 2.1 million employees, and 7,870 stores. Yes, we're talking about Walmart. And Walmart is probably the last company that you'd think about in a section describing sustainability. However, Walmart announced in early 2010 that it would "cut some 20 million metric tons of greenhouse gas emissions from its supply chain by the end of 2015—the equivalent of removing more than 3.8 million cars from the road for a year."[38] This corporate action affirms that sustainability and green management have become mainstream issues for managers.

What's emerging in the twenty-first century is the concept of managing in a sustainable way, which has had the effect of widening corporate responsibility not only to managing in an efficient and effective way, but also to responding strategically to a wide range of environmental and societal challenges.[39] Although "sustainability" means different things to different people, in essence, according to the World Business Council for Sustainable Development (2005), it is concerned with "meeting the needs of people today without compromising the ability of future generations to meet their own needs." From a business perspective, **sustainability** has been defined as a company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into its business strategies.[40] Sustainability issues are now moving up the agenda of business leaders and the boards of thousands of companies. Like the managers at Walmart are discovering, running an organization in a more sustainable way will mean that managers have to make informed business decisions based on thorough communication with various stakeholders, understanding their requirements, and starting to factor economic, environmental, and social aspects into how they pursue their business goals. We'll examine managing for sustainability and its importance to planning, organizing, leading and controlling in several places throughout the book.

Why Study Management?

1.5 LEARNING OUTCOME
Explain the value of studying management.

You may be wondering why you need to study management. If you're majoring in accounting or marketing or any field other than management, you may not understand how studying management is going to help you in your career. We can explain the value of studying management by looking at three things: the universality of management, the reality of work, and the rewards and challenges of being a manager.

The Universality of Management

Just how universal is the need for management in organizations? We can say with absolute certainty that management is needed in all types and sizes of organizations, at all organizational levels and in all organizational work areas, and in all organizations, no matter where they're located. This is known as the **universality of management**. (See Exhibit 1-9.) In all these organizations, managers must plan, organize, lead, and control. However, that's not to say that management is done the same way. What a supervisor in a software applications testing group at Microsoft does versus what the CEO of Microsoft does is a matter of degree and emphasis, not of function. Because both are managers, both will plan, organize, lead, and control. How much and how they do so will differ, however.

Management is universally needed in all organizations, so we want to find ways to improve the way organizations are managed. Why? Because we interact with organizations every single day. Are you frustrated when you have to spend two hours in a state government office to get your driver's license renewed? Are you irritated when none of the salespeople in a retail store seems interested in helping you? Is it annoying when you call an airline three times and customer sales representatives quote you three different prices for the same trip? These examples show problems created by poor management. Organizations that are well managed—and we'll share many examples of these throughout the text—develop a loyal customer base, grow, and prosper, even during challenging times. Those that are poorly managed find themselves losing customers and revenues. By studying management, you'll be able to recognize poor management and work to get it corrected. In

EXHIBIT 1-9
Universal Need for Management

sustainability
A company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into its business strategies

universality of management
The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in organizations no matter where located

addition, you'll be able to recognize and support good management, whether it's in an organization with which you're simply interacting or whether it's in an organization in which you're employed.

The Reality of Work

Another reason for studying management is the reality that for most of you, once you graduate from college and begin your career, you will either manage or be managed. For those who plan to be managers, an understanding of management forms the foundation upon which to build your management skills. For those of you who don't see yourself managing, you're still likely to have to work with managers. Also, assuming that you'll have to work for a living and recognizing that you're very likely to work in an organization, you'll probably have some managerial responsibilities even if you're not a manager. Our experience tells us that you can gain a great deal of insight into the way your boss (and fellow employees) behave and how organizations function by studying management. Our point is that you don't have to aspire to be a manager to gain something valuable from a course in management.

Rewards and Challenges of Being a Manager

We can't leave our discussion here without looking at the rewards and challenges of being a manager. (See Exhibit 1-10.) What *does* it mean to be a manager in today's workplace?

First, there are many challenges. It can be a tough and often thankless job. In addition, a portion of a manager's job (especially at lower organizational levels) may entail duties that are often more clerical (compiling and filing reports, dealing with bureaucratic procedures, or doing paperwork) than managerial.[41] Managers often have to deal with a variety of personalities and have to make do with limited resources. It can be a challenge to motivate workers in the face of uncertainty and chaos, as this recession has illustrated time and time again. And managers may find it difficult to successfully blend the knowledge, skills, ambitions, and experiences of a diverse work group. Finally, as a manager, you're not in full control of your destiny. Your success typically is dependent upon others' work performance.

Despite these challenges, being a manager *can be* rewarding. You're responsible for creating a work environment in which organizational members can do their work to the best of their ability and thus help the organization achieve its goals. You help others find meaning and fulfillment in their work. You get to support, coach, and nurture others and help them make good decisions. In addition, as a manager, you often have the opportunity to think creatively and use your imagination. You'll get to meet and work with a variety of

EXHIBIT 1-10
Rewards and Challenges of Being a Manager

Rewards	Challenges
• Create a work environment in which organizational members can work to the best of their ability • Have opportunities to think creatively and use imagination • Help others find meaning and fulfillment in work • Support, coach, and nurture others • Work with a variety of people • Receive recognition and status in organization and community • Play a role in influencing organizational outcomes • Receive appropriate compensation in the form of salaries, bonuses, and stock options • Good managers are needed by organizations	• Do hard work • May have duties that are more clerical than managerial • Have to deal with a variety of personalities • Often have to make do with limited resources • Motivate workers in chaotic and uncertain situations • Blend knowledge, skills, ambitions, and and experiences of a diverse work group • Success depends on others' work performance

people—both inside and outside the organization. Other rewards may include receiving recognition and status in your organization and in the community, playing a role in influencing organizational outcomes, and receiving attractive compensation in the form of salaries, bonuses, and stock options. Finally, as we said earlier in the chapter, organizations need good managers. It's through the combined efforts of motivated and passionate people working together that organizations accomplish their goals. As a manager, you can be assured that your efforts, skills, and abilities are needed.

Let's Get Real:

My Response *to A Manager's Dilemma, page 4*

A good place to work is one in which employees have the resources they need in order to best fulfill customers' requests and expectations. As companies and managers sometimes look to cut costs and do more with less, they face a fine balance between what employees and customers can have reduced without negative repercussions.

I believe that employee engagement is a critical element in a smooth workplace. If I were in Lisa's situation, I would get the employees involved in brainstorming about areas they see room for cutting costs, ideas on work flows and processes, and what could help all work more efficiently and effectively. Employee engagement is heightened when employees feel like they have a voice in making their workplace a better place to work and that management is in tune with the needs and concerns of front line employees. Also, implementing changes and transitioning employees to a new way of doing business can be easier because employee buy-in is already there if they participated in some of the ground work and ideas.

What Would You Do?

Lacy Martin
Banking Center Manager, Assistant Vice President
Commerce Bank
Springfield, MO

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 1.1

Explain why managers are important to organizations.

Managers are important to organizations for three reasons. First, organizations need their managerial skills and abilities in uncertain, complex, and chaotic times. Second, managers are critical to getting things done in organizations. Finally, managers contribute to employee productivity and loyalty; the way employees are managed can affect the organization's financial performance; and managerial ability has been shown to be important in creating organizational value.

LEARNING OUTCOME 1.2

Tell who managers are and where they work.

Managers coordinate and oversee the work of other people so that organizational goals can be accomplished. Nonmanagerial employees work directly on a job or task and have no one reporting to them. In traditionally structured organizations, managers can be first-line, middle, or top. In other more loosely configured organizations, the managers may not be as readily identifiable, although someone must fulfill that role.

Managers work in an organization, which is a deliberate arrangement of people to accomplish some specific purpose. Organizations have three characteristics: a distinctive purpose, composed of people, and a deliberate structure. Many of today's organizations are structured to be more open, flexible, and responsive to changes.

LEARNING OUTCOME 1.3

Describe the functions, roles, and skills of managers.

Broadly speaking, management is what managers do and management involves coordinating and overseeing the efficient and effective completion of others' work activities. Efficiency means doing things right; effectiveness means doing the right things.

The four functions of management include planning (defining goals, establishing strategies, and developing plans), organizing (arranging and structuring work), leading (working with and through people), and controlling (monitoring, comparing, and correcting work performance).

Mintzberg's managerial roles include interpersonal, which involve people and other ceremonial/symbolic duties (figurehead, leader, and liaison); informational, which involve collecting, receiving, and disseminating information (monitor, disseminator, and spokesperson); and decisional, which involve making choices (entrepreneur, disturbance handler, resource allocator, and negotiator). Mintzberg's newest description of what managers do proposes that managing is about influencing action, which managers do in three ways: by managing actions directly, by managing people who take action, and by managing information that impels people to take action.

Katz's managerial skills include technical (job-specific knowledge and techniques), human (ability to work well with people), and conceptual (ability to think and express ideas). Technical skills are most important for lower-level managers while conceptual skills are most important for top managers. Human skills are equally important for all managers. Some other managerial skills also identified include managing human capital, inspiring commitment, managing change, using purposeful networking, and so forth.

LEARNING OUTCOME 1.4

Describe the factors that are reshaping and redefining the manager's job.

The changes impacting managers' jobs include global economic and political uncertainties, changing workplaces, ethical issues, security threats, and changing technology. Managers must be concerned with customer service because employee attitudes and behaviors play a big role in customer satisfaction. Managers must also be concerned with innovation because it is important for organizations to be competitive. And finally, managers must be concerned with sustainability as business goals are developed.

Explain the value of studying management.

LEARNING OUTCOME 1.5

It's important to study management for three reasons: (1) the universality of management, which refers to the fact that managers are needed in all types and sizes of organizations, at all organizational levels and work areas, and in all global locations; (2) the reality of work—that is, you will either manage or be managed; and (3) the awareness of the significant rewards (such as, creating work environments to help people work to the best of their ability; supporting and encouraging others; helping others find meaning and fulfillment in work; etc.) and challenges (such as, it's hard work; may have more clerical than managerial duties; have to deal with a variety of personalities; etc.) in being a manager.

To check your understanding of learning outcomes 1.1 – 1.5 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. How do managers differ from nonmanagerial employees?
2. Is your course instructor a manager? Discuss in terms of managerial functions, managerial roles, and skills.
3. "The manager's most basic responsibility is to focus people toward performance of work activities to achieve desired outcomes." What's your interpretation of this statement? Do you agree with it? Why or why not?
4. Explain the universality of management concept. Does it still hold true in today's world? Why or why not?
5. Is business management a profession? Why or why not? Do some external research in answering this question.
6. Is there one best "style" of management? Why or why not?
7. Does the way that contemporary organizations are structured appeal to you? Why or why not?
8. In today's environment, which is more important to organizations—efficiency or effectiveness? Explain your choice.
9. Researchers at Harvard Business School found that the most important managerial behaviors involve two fundamental things: enabling people to move forward in their work and treating them decently as human beings. What do you think of these two managerial behaviors? What are the implications for someone, like yourself, who is studying management?
10. "Management is undoubtedly one of humankind's most important inventions." Do you agree with this statement? Why or why not?

PREPARING FOR: My Career

ETHICS DILEMMA

Lying on your résumé.[42] One survey indicated that some 44 percent of people lie about their work history. Another survey found that 93 percent of hiring managers who found a lie on a job candidate's résumé did not hire that person. What if the person lying on a résumé was the top executive? A survey of 358 senior executives and directors at 53 publicly traded companies turned up seven instances of claims of having an academic degree they didn't actually have. Such misstatements (accidental or deliberate) cost the CEOs at Radio Shack, Herbalife, USANA Health Sciences, and MGM Mirage their jobs. Why do you think lying about your academic credentials is considered wrong? What ethical issues does it bring up? Which is worse: lying about your academic credentials or lying about your work history? Why?

SKILLS EXERCISE

Developing Your Political Skill

About the Skill

Research has shown that people differ in their political skills.[43] Those who are politically skilled are more effective in their use of influence tactics. Political skill also appears to be more effective when the stakes are high. Finally, politically skilled individuals are able to exert their influence without others detecting it, which is important in being effective so that you're not labeled political. A person's political skill is determined by his or her networking ability, interpersonal influence, social astuteness, and apparent sincerity.

Steps in Practicing the Skill

1. *Develop your networking ability.* A good network can be a powerful tool. You can begin building a network by getting to know important people in your work area and the organization and then developing relationships with individuals who are in positions of power. Volunteer for committees or offer your help on projects that will be noticed by those in positions of power. Attend important organizational functions so that you can be seen as a team player and someone who's interested in the organization's success. Start a rolodex file of names of individuals that you meet even if for a brief moment. Then, when you need advice on work, use your connections and network with others throughout the organization.
2. *Work on gaining interpersonal influence.* People will listen to you when they're comfortable and feel at ease around you. Work on your communication skills so that you can communicate easily and effectively with others. Work on developing good rapport with people in all areas and at all levels of your organization. Be open, friendly, and willing to pitch in. The amount of interpersonal influence you have will be affected by how well people like you.
3. *Develop your social astuteness.* Some people have an innate ability to understand people and sense what they're thinking. If you don't have that ability, you'll have to work at developing your social astuteness by doing things such as saying the right things at the right time, paying close attention to people's facial expressions, and trying to determine whether others have hidden agendas.
4. *Be sincere.* Sincerity is important to getting people to want to associate with you. Be genuine in what you say and do. And show a genuine interest in others and their situations.

Practicing the Skill

Select each of the components of political skill and spend one week working on it. Write a brief set of notes describing your experiences—good and bad. Were you able to begin developing a network of people throughout the organization or did you work at developing your social astuteness, maybe by starting to recognize and interpret people's facial expressions and the meaning behind those expressions? What could you have done differently to be more politically skilled? Once you begin to recognize what's involved with political skills, you should find yourself becoming more connected and politically adept.

WORKING TOGETHER

Team Exercise

By this time in your life, all of you have had to work with individuals in managerial positions (or maybe *you* were the manager), either through work experiences or through other organizational experiences (social, hobby/interest, religious, and so forth). What do you think makes some managers better than others? Do certain characteristics distinguish good managers? Form small groups with 3–4 other class members. Discuss your experiences with managers—good and bad. Draw up a list of the characteristics of those individuals you felt were good managers. For each item, indicate which management function and which management skill you think it falls under. As a group, be prepared to share your list with the class and to explain your choice of management function and skill.

MY TURN TO BE A MANAGER

- Use the most current *Occupational Outlook Handbook* (U.S. Department of Labor, Bureau of Labor Statistics) to research three different categories of managers. For each, prepare a bulleted list that describes the following: the nature of the work; training and other qualifications needed; earnings; and job outlook and projections data.
- Get in the habit of reading at least one current business periodical (*Wall Street Journal, BusinessWeek, Fortune, Fast Company, Forbes,* etc.). Keep a file with interesting information you find about managers or managing.
- Using current business periodicals, find five examples of managers you would describe as *Master Managers.* Write a paper describing these individuals as managers and why you feel they deserve this title.
- Steve's and Mary's suggested readings: Henry Mintzberg, *Managing* (Berrett-Koehler Publishers,

2009); Matthew Stewart, *The Management Myth* (W. W. Norton & Company, 2009); Paul Osterman, *The Truth About Middle Managers: Who They Are, How They Work, and Why They Matter* (Harvard Business Press, 2008); Stephen P. Robbins, *The Truth About Managing People,* 2e (Financial Times/Prentice Hall, 2007); Gary Hamel, *The Future of Management* (Harvard Business School, 2007); Rod Wagner and James K. Harter, *12 Elements of Great Managing* (Gallup Press, 2006); Marcus Buckingham, *First Break All the Rules: What the World's Greatest Managers Do Differently* (Simon & Schuster, 1999); and Peter F. Drucker, *The Executive in Action* (Harper Business, 1985 and 1964).

- Interview two different managers and ask them at least three of the questions that were listed in the *Let's Get Real: Meet the Managers* and *Let's Get Real: F2F* boxes in the chapter. Type up the questions and their answers to turn in to your professor.
- Accountants and other professionals have certification programs to verify their skills, knowledge, and professionalism. What about managers? Two certification programs for managers include the Certified Manager (Institute of Certified Professional Managers) and the Certified Business Manager (Association of Professional in Business Management). Research each of these programs. Prepare a bulleted list of what each involves.
- If you're involved in student organizations, volunteer for leadership roles or for projects where you can practice planning, organizing, leading, and controlling different projects and activities. You can also gain valuable managerial experience by taking a leadership role in class team projects.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete any of these self-assessment exercises: How Motivated Am I to Manage? How Well Do I Handle Ambiguity? How Confident Am I in My Abilities to Succeed? or What's My Attitude Toward Achievement? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

More Than a Good Story

The management style of Life is good co-founders and brothers John (left) and Bert Jacobs is based on their personal and business philosophy of simplicity, humor, and humility.

Jake and Rocket, a cartoon guy and his cartoon dog, can be found on most of the apparel and other branded products sold by the Life is good® company.[44] With his perky beret (or other appropriate head gear), Jake has that contented look of being able to enjoy life as it is and finding reasons to be happy right now. And Rocket? Well, he's just happy to be along for the ride. And what a ride it's been for the two! They've been a part of the company's growth to over $100 million in revenues. Company co-founders and brothers, Bert and John Jacobs have a personal and business philosophy much like Jake: simplicity, humor, and humility. However, both understand that even with this philosophy, they need to be good managers and they need good managers throughout the organization in order to stay successful.

Bert and John designed their first tee shirts in 1989 and sold them door-to-door in college dorms along the East Coast and in Boston where they'd set up shop using an old card table in locations on one-way streets so they could pick up and move quickly if they needed to. They used this simple sales approach because, like many young entrepreneurs, they couldn't afford required business licenses. Although they met a lot of wonderful

people and heard a lot of good stories during those early years, sales weren't that great. As the company legend goes, the brothers "lived on peanut butter and jelly, slept in their beat-up van, and showered when they could." During one of their usual post-sales-trip parties, Bert and John asked some friends for advice on an assortment of images and slogans they had put together. Those friends (some of whom now work for the company) liked the "Life is good" slogan and a drawing of Jake that had been sketched by John. So Bert and John printed up 48 Jake shirts for a local street fair in Cambridge, Massachusetts. By noon, the 48 shirts were gone, something that had never happened! The brothers were smart enough to recognize that they might be on to something. And, as the old saying goes . . . the rest is history! Since that momentous day in 1994, they've sold nearly 20 million Life is good tee shirts featuring Jake and Rocket. Bert attributes their success to his belief that "the 'Life is good' message, coupled with the carefree image of Jake, was simple enough to swallow, light enough not to be mistaken for preachy, and profound enough to matter." He goes on to say that, "Note that we don't say 'Life is great!' We say life is good, period. Three simple words. People connect with it instantly."

Another important facet of Life is good is their commitment to good causes. And those aren't just "words" to Bert and John; they act on their words. They are passionately involved with Project Joy, which is a nonprofit organization that fosters the development of at-risk children through the art of play. Bert says their partnership with Project Joy aligns with Life is good's whole philosophy. The financial commitment the company has made is supported by its Life is good Kids Foundation, which raises funds through the popular Life is good festivals and through sales of fundraising t-shirts and books at its retail stores.

Today, Life is good, based in Boston, has a product line of more than 900 items. The company continues to grow about 30 to 40 percent annually. Bert and John's style of managing is guided by another of the company's mottoes, "Do what you like. Like what you do."® As the company's Web site states, "In addition to knowledge, skills, and experience, we look to hire people who possess the same optimistic outlook on life that Jake has." It's an approach that seems to be working for Bert and John and for Jake and Rocket.

Discussion Questions

1. As the top managers of their company, what types of issues might Bert and John have to deal with? Be as specific as possible. Which management functions might be most important to them? Why?
2. Using descriptions from the case, describe Bert and John's managerial style. Would this approach work for other organizations? Why or why not?
3. How do you think the company's motto "Do what you like. Like what you do" might affect how managers manage? Be specific.
4. What managerial challenges might there be in having friends work for your business? How could these challenges be kept inconsequential?
5. Would you want to work for a company like this? Why or why not?
6. In what ways would the Life is good managers (corporate and retail store) have to deal with the challenges of customer service, innovation, and sustainability? Be specific in your description.

CASE APPLICATION 2

Flight Plans

With a small year-round population, Branson, Missouri, is in a location not easily accessible by air service.[45] The city, best known for its country music and music variety shows and family-style attractions, also has the kinds of outdoor activities that attracted more than 8 million visitors last year,

"earning it the unofficial nickname 'Vegas without the gambling.'" About 95 percent of those visitors come by car or bus. But now there's a new show in town—the Branson Airport. The $155 million airport, which opened in May 2009, is an experiment that many people are watching.

The airport is generating interest from city governments and the travel industry because it's the nation's first commercial airport built and operated as a private, for-profit business with absolutely no government funding. As one expert said, "...unpretentious little Branson Airport could have an outsize effect it if works. It could turn what now is a mostly regional tourist spot into a national destination for tourists."

Steve Peet, the airport's chief executive, admits that he had no idea where Branson was in 2000. But by 2004, he was convinced there was money to be made flying tourists there. He says, "If you were ever going to think about building a private commercial airport, this would be the place to do it. How many more visitors would come here if we made it easier and affordable for them? It seemed like an incredible opportunity." So, using private financing, he decided to build a new commercial airport a short distance south of Branson's popular music shows district. Both Peet and Jeff Bourk, executive director of the airport, continue to tackle the managerial challenges of turning that dream into reality.

Construction work on the airport terminal and the 7,140-foot runway (which can accommodate most narrow-body jets) went smoothly. Bourk believed that much of that was due to minimal red tape. Because the airport wasn't using federal assistance, it didn't face the restrictions that accompany taking government money, which also meant it could pick and choose the airlines it allowed in. To attract those airlines, the airport agreed to not allow other competitors in. Also, the airport owners kept the airlines' operating costs low since airport employees do much of the work usually done by an airline's ground staff. Initially, the airport's owners offered exclusive contracts to AirTran and Sun Country on certain routes to Branson. Now, Frontier Airlines and the newly-formed Branson AirExpress have added service. Mr. Peet emphasizes that they *want* the airlines to succeed. "We want to build real service, sustainable service."

The airport earns money from landing fees (based on number of passengers, not on weight), aircraft fuel sales, a percentage of every sale at the airport's facility, and a $8.24 fee paid by the city of Branson for each arriving passenger. To reach Peet's goal of 250,000 passengers a year, the airport needs only 685 passengers (five to six planeloads) a day. He says, "What we're doing is going to work." But first, they have to deal with some significant turbulence. Branson city officials (who have been elected and hired since the original agreement was signed) now say that the contract between the city and the airport regarding the arriving passenger fee may not even be constitutional. Airport officials respond that, "We have a legal document and we expect to be paid." And Bourk maintains that Branson benefits from every tourist that goes through the airport. "We bring in high-quality tourists all over the country to spend money in Branson for a cheap price of $8.24."

Discussion Questions

1. Using the four functions as your guide, what challenges would Jeff Bourk face in managing the Branson Airport?
2. Again, using the four functions as your guide, do you think the managerial challenges Jeff Bourk faced when getting the airport up and running are different from what he faces now in actually overseeing the airport's operation? Explain.
3. What management roles would Jeff Bourk be playing as he (a) negotiates new contracts with potential airlines, (b) works with the airport employees in providing a high level of customer service to arriving and departing passengers, and (c) resolves the contractual issues with the city of Branson? Be specific and explain your choices.
4. What skills would be most important to a manager like Jeff Bourk? Explain your choices.

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Management History Module

Henry Ford once said, "History is more or less bunk." Well...he was wrong! History is important because it can put current activities in perspective. In this module, we're going to take a trip back in time to see how the field of study called management has evolved. What you're going to see is that today's managers still use many elements of the historical approaches to management. Focus on the following learning outcomes as you read and study this module.

LEARNING OUTCOMES

MH 1
Describe some early management examples.
page 28

MH 2
Explain the various theories in the classical approach.
page 29

MH 3
Discuss the development and uses of the behavioral approach.
page 32

MH 4
Describe the quantitative approach.
page 34

MH 5
Explain the various theories in the contemporary approach.
page 36

LEARNING OUTCOME
Describe some early management examples.

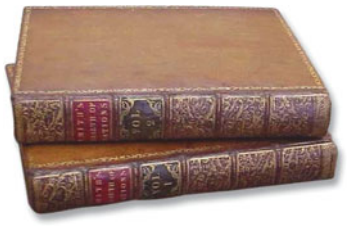
MH 1

Early Management

Management has been practiced a long time. Organized endeavors directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. Let's look at some of the most interesting examples.

The Egyptian pyramids and the Great Wall of China are proof that projects of tremendous scope, employing tens of thousands of people, were completed in ancient times.[1] It took more than 100,000 workers some 20 years to construct a single pyramid. Who told each worker what to do? Who ensured that there would be enough stones at the site to keep workers busy? The answer is *managers.* Someone had to plan what was to be done, organize people and materials to do it, make sure those workers got the work done, and impose some controls to ensure that everything was done as planned.

Another example of early management can be found in the city of Venice, which was a major economic and trade center in the 1400s. The Venetians developed an early form of business enterprise and engaged in many activities common to today's organizations. For instance, at the arsenal of Venice, warships were floated along the canals, and at each stop, materials and riggings were added to the ship.[2] Sounds a lot like a car "floating" along an assembly line, doesn't it? In addition, the Venetians used warehouse and inventory systems to keep track of materials, human resource management functions to manage the labor force (including wine breaks), and an accounting system to keep track of revenues and costs.



In 1776, Adam Smith published *The Wealth of Nations*, in which he argued the economic advantages that organizations and society would gain from the **division of labor** (or **job specialization**)—that is, breaking down jobs into narrow and repetitive tasks. Using the pin industry as an example, Smith claimed that 10 individuals, each doing a specialized task, could produce about 48,000 pins a day among them. However, if each person worked alone performing each task separately, it would be quite an accomplishment to produce even 10 pins a day! Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, saving time lost in changing tasks, and creating labor-saving inventions and machinery. Job specialization continues to be popular. For example, think of the specialized tasks performed by members of a hospital surgery team, meal preparation tasks done by workers in restaurant kitchens, or positions played by players on a football team.

Starting in the late eighteenth century when machine power was substituted for human power, a point in history known as the **industrial revolution**, it became more economical to manufacture goods in factories rather than at home. These large efficient factories needed someone to forecast demand, ensure that enough material was on hand to make products, assign tasks to people, direct daily activities, and so forth. That "someone" was a manager: These managers would need formal theories to guide them in running these large organizations. It wasn't until the early 1900s, however, that the first steps toward developing such theories were taken.

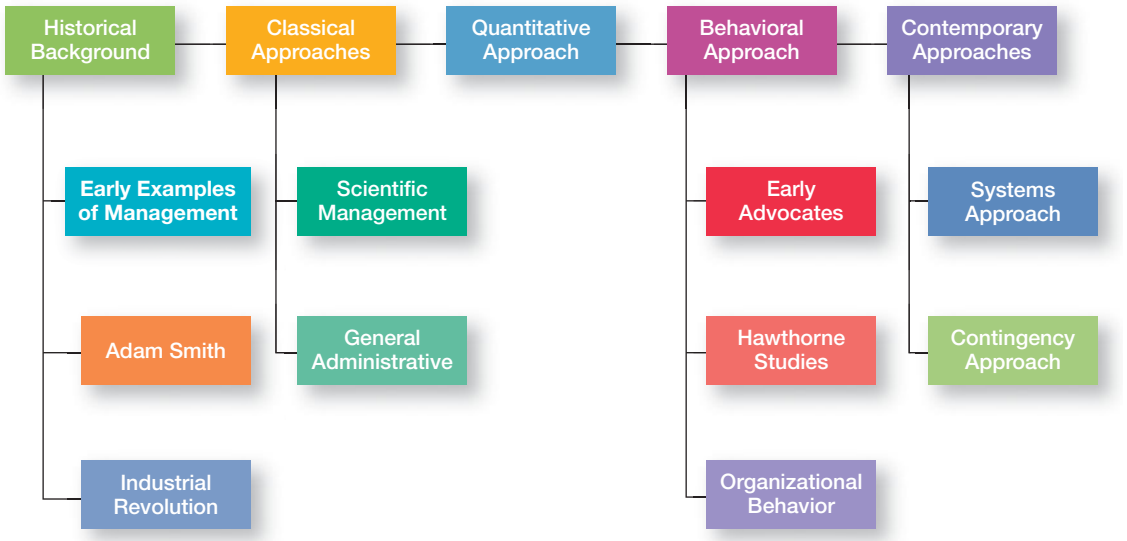


EXHIBIT MH-1
Major Approaches to Management

In this module, we'll look at four major approaches to management theory: classical, behavioral, quantitative, and contemporary. (See Exhibit MH-1.) Keep in mind that each approach is concerned with trying to explain management from the perspective of what was important at that time in history and the backgrounds and interests of the researchers. Each of the four approaches contributes to our overall understanding of management, but each is also a limited view of what it is and how to best practice it.

Classical Approach

MH 2

LEARNING OUTCOME
Explain the various theories in the classical approach.

Although we've seen how management has been used in organized efforts since early history, the formal study of management didn't begin until early in the twentieth century. These first studies of management, often called the **classical approach**, emphasized rationality and making organizations and workers as efficient as possible. Two major theories comprise the classical approach: scientific management and general administrative theory. The two most important contributors to scientific management theory were Frederick W. Taylor and the husband-wife team of Frank and Lillian Gilbreth. The two most important contributors to general administrative theory were Henri Fayol and Max Weber. Let's take a look at each of these important figures in management history.

If you had to pinpoint when modern management theory was born, 1911 might be a good choice. That was when Frederick Winslow Taylor's *Principles of Scientific Management* was published. Its contents were widely embraced by managers around the world. Taylor's book described the theory of **scientific management**: the use of scientific methods to define the "one best way" for a job to be done.

Taylor worked at the Midvale and Bethlehem Steel Companies in Pennsylvania. As a mechanical engineer with a Quaker and Puritan background, he was continually appalled by workers' inefficiencies. Employees used vastly different techniques to do the same job. They often "took it easy" on the job, and Taylor believed that worker output was only about one-third of what was possible. Virtually no work standards existed and workers were placed in jobs with little or no concern for matching their abilities and aptitudes with the tasks they were required to do. Taylor set out to remedy that by applying the scientific method to shop-floor jobs. He spent more than two decades passionately pursuing the "one best way" for such jobs to be done.

EXHIBIT MH-2
Taylor's Scientific Management Principles

1. Develop a science for each element of an individual's work to replace the old rule-of-thumb method.
2. Scientifically select and then train, teach, and develop the worker.
3. Heartily cooperate with the workers so as to ensure that all work is done in accordance with the principles of the science that has been developed.
4. Divide work and responsibility almost equally between management and workers. Management does all work for which it is better suited than the workers.

Taylor's experiences at Midvale led him to define clear guidelines for improving production efficiency. He argued that these four principles of management (see Exhibit MH-2) would result in prosperity for both workers and managers.[3] How did these scientific principles really work? Let's look at an example.

Probably the best known example of Taylor's scientific management efforts was the pig iron experiment. Workers loaded "pigs" of iron (each weighing 92 lbs.) onto rail cars. Their daily average output was 12.5 tons. However, Taylor believed that by scientifically analyzing the job to determine the "one best way" to load pig iron, output could be increased to 47 or 48 tons per day. After scientifically applying different combinations of procedures, techniques, and tools, Taylor succeeded in getting that level of productivity. How? By putting the right person on the job with the correct tools and equipment, having the worker follow his instructions exactly, and motivating the worker with an economic incentive of a significantly higher daily wage. Using similar approaches for other jobs, Taylor was able to define the "one best way" for doing each job. Overall, Taylor achieved consistent productivity improvements in the range of 200 percent or more. Based on his groundbreaking studies of manual work using scientific principles, Taylor became known as the "father" of scientific management. His ideas spread in the United States and to other countries and inspired others to study and develop methods of scientific management. His most prominent followers were Frank and Lillian Gilbreth.

A construction contractor by trade, Frank Gilbreth gave up that career to study scientific management after hearing Taylor speak at a professional meeting. Frank and his wife Lillian, a psychologist, studied work to eliminate inefficient hand-and-body motions. The Gilbreths also experimented with the design and use of the proper tools and equipment for optimizing work performance.[4] Also, as parents of 12 children, the Gilbreths ran their household using scientific management principles and techniques. In fact, two of their children wrote a book, *Cheaper by the Dozen*, which described life with the two masters of efficiency.

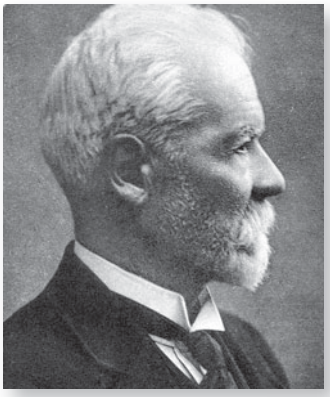
Frank is probably best known for his bricklaying experiments. By carefully analyzing the bricklayer's job, he reduced the number of motions in laying exterior brick from 18 to about 5, and in laying interior brick from 18 to 2. Using Gilbreth's techniques, a bricklayer was more productive and less fatigued at the end of the day.

The Gilbreths invented a device called a microchronometer that recorded a worker's hand-and-body motions and the amount of time spent doing each motion. Wasted motions missed by the naked eye could be identified and eliminated. The Gilbreths also devised a classification scheme to label 17 basic hand motions (such as search, grasp, hold), which they called **therbligs** (Gilbreth spelled backward with the *th* transposed). This scheme gave the Gilbreths a more precise way of analyzing a worker's exact hand movements.

How today's managers use scientific management

Many of the guidelines and techniques that Taylor and the Gilbreths devised for improving production efficiency are still used in organizations today. When managers analyze the basic work tasks that must be performed, use time-and-motion study to eliminate wasted motions, hire the best-qualified workers for a job, or design incentive systems based on output, they're using the principles of scientific management.

General administrative theory focused more on what managers do and what constituted good management practice. We introduced Henri Fayol in Chapter 1 because he first identified five functions that managers perform: planning, organizing, commanding, coordinating, and controlling.[5]



Fayol wrote during the same time period as Taylor. While Taylor was concerned with first-line managers and the scientific method, Fayol's attention was directed at the activities of *all* managers. He wrote from his personal experience as the managing director of a large French coal-mining firm.

Fayol described the practice of management as something distinct from accounting, finance, production, distribution, and other typical business functions. His belief that management was an activity common to all business endeavors, government, and even the home led him to develop 14 **principles of management**—fundamental rules of management that could be applied to all organizational situations and taught in schools. These principles are shown in Exhibit MH-3.

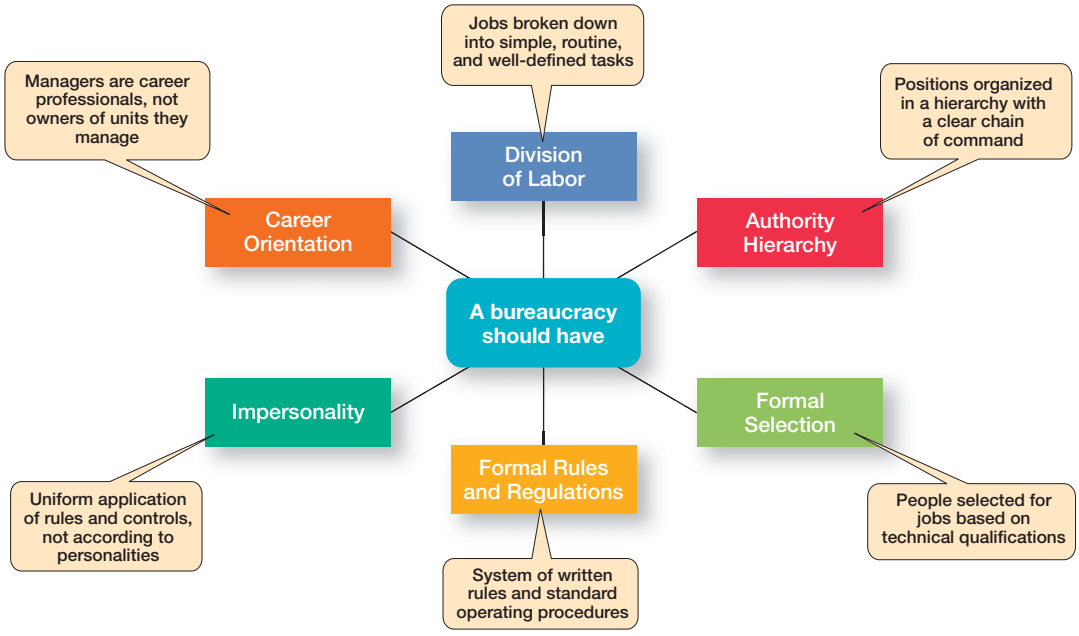
EXHIBIT MH-3
Fayol's 14 Principles of Management

1. **Division of Work.** Specialization increases output by making employees more efficient.
2. **Authority.** Managers must be able to give orders, and authority gives them this right.
3. **Discipline.** Employees must obey and respect the rules that govern the organization.
4. **Unity of command.** Every employee should receive orders from only one superior.
5. **Unity of direction.** The organization should have a single plan of action to guide managers and workers.
6. **Subordination of individual interests to the general interest.** The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration.** Workers must be paid a fair wage for their services.
8. **Centralization.** This term refers to the degree to which subordinates are involved in decision making.
9. **Scalar chain.** The line of authority from top management to the lowest ranks is the scalar chain.
10. **Order.** People and materials should be in the right place at the right time.
11. **Equity.** Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel.** Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative.** Employees who are allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps.** Promoting team spirit will build harmony and unity within the organization.

Weber (pronounced VAY-ber) was a German sociologist who studied organizations.[6] Writing in the early 1900s, he developed a theory of authority structures and relations based on an ideal type of organization he called a **bureaucracy**—a form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. (See Exhibit MH-4.) Weber recognized that this "ideal bureaucracy" didn't exist in reality. Instead he intended it as a basis for theorizing about how work could be done in large groups. His theory became the structural design for many of today's large organizations.

Bureaucracy, as described by Weber, is a lot like scientific management in its ideology. Both emphasized rationality, predictability, impersonality, technical competence, and authoritarianism. Although Weber's ideas were less practical than Taylor's, the fact that his "ideal type" still describes many contemporary organizations attests to their importance.

EXHIBIT MH-4
Characteristics of Weber's Bureaucracy



How today's managers use general administrative theory

Several of our current management ideas and practices can be directly traced to the contributions of general administrative theory. For instance, the functional view of the manager's job can be attributed to Fayol. In addition, his 14 principles serve as a frame of reference from which many current management concepts—such as managerial authority, centralized decision making, reporting to only one boss, and so forth—have evolved.

Weber's bureaucracy was an attempt to formulate an ideal prototype for organizations. Although many characteristics of Weber's bureaucracy are still evident in large organizations, his model isn't as popular today as it was in the twentieth century. Many managers feel that a bureaucratic structure hinders individual employees' creativity and limits an organization's ability to respond quickly to an increasingly dynamic environment. However, even in flexible organizations of creative professionals—such as Microsoft, Samsung, General Electric, or Cisco Systems—some bureaucratic mechanisms are necessary to ensure that resources are used efficiently and effectively.

Qwerty on KAT.PH for more

LEARNING OUTCOME
Discuss the development and uses of the behavioral approach.

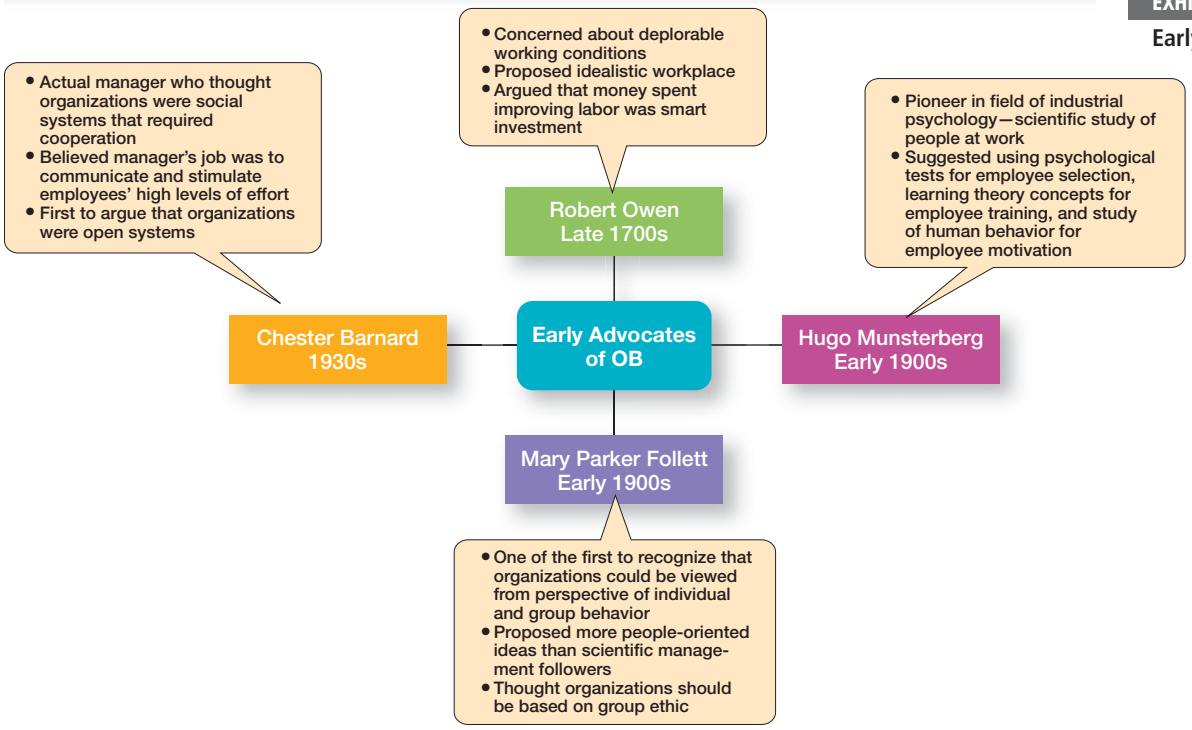
MH 3

Behavioral Approach

As we know, managers get things done by working with people. This explains why some writers have chosen to look at management by focusing on the organization's people. The field of study that researches the actions (behavior) of people at work is called **organizational behavior (OB)**. Much of what managers do today when managing people—motivating, leading, building trust, working with a team, managing conflict, and so forth—has come out of OB research.

Although a number of individuals in the early twentieth century recognized the importance of people to an organization's success, four stand out as early advocates of the OB approach: Robert Owen, Hugo Munsterberg, Mary Parker

EXHIBIT MH-5
Early OB Advocates



Follett, and Chester Barnard. Their contributions were varied and distinct, yet all believed that people were the most important asset of the organization and should be managed accordingly. Their ideas provided the foundation for such management practices as employee selection procedures, motivation programs, and work teams. Exhibit MH-5 summarizes each individual's most important ideas.

Without question, the most important contribution to the OB field came out of the **Hawthorne Studies**, a series of studies conducted at the Western Electric Company Works in Cicero, Illinois. These studies, which started in 1924, were initially designed by Western Electric industrial engineers as a scientific management experiment. They wanted to examine the effect of various lighting levels on worker productivity. Like any good scientific experiment, control and experimental groups were set up with the experimental group being exposed to various lighting intensities, and the control group working under a constant intensity. If you were the industrial engineers in charge of this experiment, what would you have expected to happen? It's logical to think that individual output in the experimental group would be directly related to the intensity of the light. However, they found that as the level of light was increased in the experimental group, output for both groups increased. Then, much to the surprise of the engineers, as the light level was decreased in the experimental group, productivity continued to increase in both groups. In fact, a productivity decrease was observed in the experimental group *only* when the level of light was reduced to that of a moonlit night. What would explain these unexpected results? The engineers weren't sure, but concluded that lighting intensity was not directly related to group productivity, and that something else must have contributed to the results. They weren't able to pinpoint what that "something else" was, though.

In 1927, the Western Electric engineers asked Harvard professor Elton Mayo and his associates to join the study as consultants. Thus began a relationship that would last through 1932 and encompass numerous experiments in the redesign of jobs, changes in workday and workweek length, introduction of rest periods, and individual versus group wage plans.[7] For example, one experiment was designed to evaluate the effect of a group piecework incentive pay system on group productivity. The results indicated that the incentive plan had less effect on a worker's output than did group pressure, acceptance, and security. The researchers concluded that social norms or group standards were the key determinants of individual work behavior.

Scholars generally agree that the Hawthorne Studies had a game-changing impact on management beliefs about the role of people in organizations. Mayo concluded that people's behavior and attitudes are closely related, that group factors significantly affect individual behavior, that group standards establish individual worker output, and that money is less a factor in determining output than are group standards, group attitudes, and security. These conclusions led to a new emphasis on the human behavior factor in the management of organizations.

Although critics attacked the research procedures, analyses of findings, and conclusions, it's of little importance from a historical perspective whether the Hawthorne Studies were academically sound or their conclusions justified.[8] What *is* important is that they stimulated an interest in human behavior in organizations.

How today's managers use the behavioral approach

The behavioral approach has largely shaped how today's organizations are managed. From the way that managers design jobs to the way that they work with employee teams to the way that they communicate, we see elements of the behavioral approach. Much of what the early OB advocates proposed and the conclusions from the Hawthorne studies have provided the foundation for our current theories of motivation, leadership, group behavior and development, and numerous other behavioral approaches.

LEARNING OUTCOME
Describe the quantitative approach.

MH 4

Quantitative Approach

Although passengers bumping into each other when trying to find their seats on an airplane can be a mild annoyance for them, it's a bigger problem for airlines because lines get backed up, slowing down how quickly the plane can get back in the air. Based on research in space-time geometry, one airline innovated a unique boarding process called "reverse pyramid" that has saved at least 2 minutes in boarding time.[9] This is an example of the **quantitative approach**, which is the use of quantitative techniques to improve decision making. This approach also is known as *management science.*

The quantitative approach evolved from mathematical and statistical solutions developed for military problems during World War II. After the war was over, many of these techniques used for military problems were applied to businesses. For example, one group of military officers, nicknamed the Whiz Kids, joined Ford Motor Company in the mid-1940s and immediately began using statistical methods and quantitative models to improve decision making.

What exactly does the quantitative approach do? It involves applying statistics, optimization models, information models, computer simulations, and other quantitative techniques to management activities. Linear programming, for instance, is a technique that managers use to improve resource allocation decisions. Work scheduling can be more efficient as a result of critical-path scheduling analysis. The economic order quantity model helps managers determine optimum inventory levels.

Each of these is an example of quantitative techniques being applied to improve managerial decision making. Another area where quantitative techniques are used frequently is in total quality management.

A quality revolution swept through both the business and public sectors in the 1980s and 1990s.[10] It was inspired by a small group of quality experts, the most famous being W. Edwards Deming (pictured at right) and Joseph M. Juran. The ideas and techniques they advocated in the 1950s had few supporters in the United States but were enthusiastically embraced by Japanese organizations. As Japanese manufacturers began beating U.S. competitors in quality comparisons, however, Western managers soon took a more serious look at Deming's and Juran's ideas . . . ideas that became the basis for today's quality management programs.

Total quality management, or **TQM**, is a management philosophy devoted to continual improvement and responding to customer needs and expectations. (See Exhibit MH-6.) The term *customer* includes anyone who interacts with the organization's product or services internally or externally. It encompasses employees and suppliers as well as the people who purchase the organization's goods or services. *Continual improvement* isn't possible without accurate measurements, which require statistical techniques that measure every critical variable in the organization's work processes. These measurements are compared against standards to identify and correct problems.

EXHIBIT MH-6
What Is Quality Management?

1. **Intense focus on the customer.** The customer includes outsiders who buy the organization's products or services and internal customers who interact with and serve others in the organization.
2. **Concern for continual improvement.** Quality management is a commitment to never being satisfied. "Very good" is not good enough. Quality can always be improved.
3. **Process focused.** Quality management focuses on work processes as the quality of goods and services is continually improved.
4. **Improvement in the quality of everything the organization does.** This relates to the final product, how the organization handles deliveries, how rapidly it responds to complaints, how politely the phones are answered, and the like.
5. **Accurate measurement.** Quality management uses statistical techniques to measure every critical variable in the organization's operations. These are compared against standards to identify problems, trace them to their roots, and eliminate their causes.
6. **Empowerment of employees.** Quality management involves the people on the line in the improvement process. Teams are widely used in quality management programs as empowerment vehicles for finding and solving problems.

How today's managers use the quantitative approach

No one likes long lines, especially residents of New York City. If they see a long checkout line, they often go somewhere else. However, at Whole Foods' first gourmet supermarkets in Manhattan, customers found something different—that is, the longer the line, the shorter the wait. When ready to check out, customers are guided into serpentine single lines that feed into numerous checkout lanes. Whole Foods, widely known for its organic food selections, can charge premium prices, which allow it the luxury of staffing all those checkout lanes. And customers are finding that their wait times are shorter than expected.[11] The science of keeping lines moving is known as queue management. And for Whole Foods, this quantitative technique has translated into strong sales at its Manhattan stores.

The quantitative approach contributes directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, queuing, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. Specialized software has made the use of these techniques less intimidating for managers, although many still feel anxious about using them.

LEARNING OUTCOME
Explain the various theories in the contemporary approach.

MH 5

Contemporary Approaches

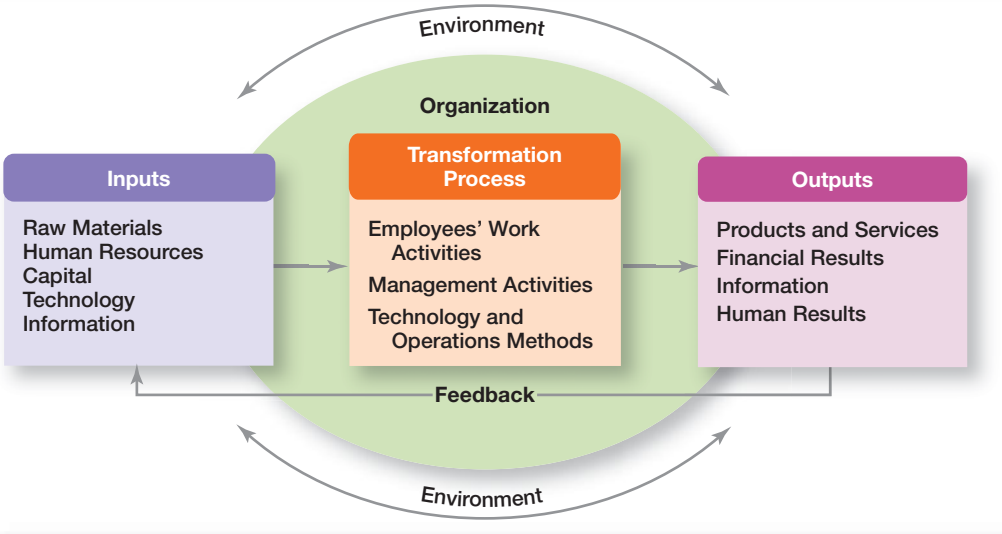
As we've seen, many elements of the earlier approaches to management theory continue to influence how managers manage. Most of these earlier approaches focused on managers' concerns *inside* the organization. Starting in the 1960s, management researchers began to look at what was happening in the external environment *outside* the boundaries of the organization. Two contemporary management perspectives—systems and contingency—are part of this approach.

Systems theory is a basic theory in the physical sciences, but had never been applied to organized human efforts. In 1938, Chester Barnard, a telephone company executive, first wrote in his book, *The Functions of an Executive,* that an organization functioned as a cooperative system. However, it wasn't until the 1960s that management researchers began to look more carefully at systems theory and how it related to organizations.

A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. The two basic types of systems are closed and open. **Closed systems** are not influenced by and do not interact with their environment. In contrast, **open systems** are influenced by and do interact with their environment. Today, when we describe organizations as systems, we mean open systems. Exhibit MH-7 shows a diagram of an organization from an open systems perspective. As you can see, an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. The organization is "open" to and interacts with its environment.

How does the systems approach contribute to our understanding of management? Researchers envisioned an organization as being made up of "interdependent factors, including individuals, groups, attitudes, motives, formal structure, interactions, goals, status, and authority."[12] What this means is that as managers coordinate work activities in the various parts of the organization, they ensure that all these parts are working together so the organization's goals can be achieved. For example, the systems approach recognizes that, no matter how efficient the production department might be, the marketing department must anticipate changes in customer tastes and work with the product development department in creating products customers want or the organization's overall performance will suffer.

EXHIBIT MH-7
Organization as an Open System



In addition, the systems approach implies that decisions and actions in one organizational area will affect other areas. For example, if the purchasing department doesn't acquire the right quantity and quality of inputs, the production department won't be able to do its job.

Finally, the systems approach recognizes that organizations are not self-contained. They rely on their environment for essential inputs and as outlets to absorb their outputs. No organization can survive for long if it ignores government regulations, supplier relations, or the varied external constituencies upon which it depends.

How relevant is the systems approach to management? Quite relevant. Consider, for example, a shift manager at a Starbucks restaurant who must coordinate the work of employees filling customer orders at the front counter and the drive-through windows, direct the delivery and unloading of food supplies, and address any customer concerns that come up. This manager "manages" all parts of the "system" so that the restaurant meets its daily sales goals.

The early management theorists came up with management principles that they generally assumed to be universally applicable. Later research found exceptions to many of these principles. For example, division of labor is valuable and widely used, but jobs can become *too* specialized. Bureaucracy is desirable in many situations, but in other circumstances, other structural designs are *more* effective. Management is not (and cannot be) based on simplistic principles to be applied in all situations. Different and changing situations require managers to use different approaches and techniques. The **contingency approach** (sometimes called the *situational approach*) says that organizations are different, face different situations (contingencies), and require different ways of managing.

A good way to describe contingency is "if, then." *If* this is the way my situation is, *then* this is the best way for me to manage in this situation. It's intuitively logical because organizations and even units within the same organization differ—in size, goals, work activities, and the like. It would be surprising to find universally applicable management rules that would work in *all* situations. But, of course, it's one thing to say that the way to manage "depends

division of labor (job specialization)
The breakdown of jobs into narrow and repetitive tasks

industrial revolution
A period during the late eighteenth century when machine power was substituted for human power, making it more economical to manufacture goods in factories than at home

classical approach
First studies of management, which emphasized rationality and making organizations and workers as efficient as possible

scientific management
An approach that involves using the scientific method to find the "one best way" for a job to be done

therbligs
A classification scheme for labeling basic hand motions

general administrative theory
An approach to management that focuses on describing what managers do and what constitutes good management practice

principles of management
Fundamental rules of management that could be applied in all organizational situations and taught in schools

bureaucracy
A form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships

organizational behavior (OB)
The study of the actions of people at work

Hawthorne Studies
A series of studies during the 1920s and 1930s that provided new insights into individual and group behavior

quantitative approach
The use of quantitative techniques to improve decision making

total quality management (TQM)
A philosophy of management that is driven by continuous improvement and responsiveness to customer needs and expectations

system
A set of interrelated and interdependent parts arranged in a manner that produces a unified whole

closed system
Systems that are not influenced by and do not interact with their environment

open system
Systems that interact with their environment

contingency approach
A management approach that recognizes organizations as different, which means they face different situations (contingencies) and require different ways of managing

EXHIBIT MH-8
Popular Contingency Variables

Organization Size. As size increases, so do the problems of coordination. For instance, the type of organization structure appropriate for an organization of 50,000 employees is likely to be inefficient for an organization of 50 employees.

Routineness of Task Technology. To achieve its purpose, an organization uses technology. Routine technologies require organizational structures, leadership styles, and control systems that differ from those required by customized or nonroutine technologies.

Environmental Uncertainty. The degree of uncertainty caused by environmental changes influences the management process. What works best in a stable and predictable environment may be totally inappropriate in a rapidly changing and unpredictable environment.

Individual Differences. Individuals differ in terms of their desire for growth, autonomy, tolerance of ambiguity, and expectations. These and other individual differences are particularly important when managers select motivation techniques, leadership styles, and job designs.

on the situation" and another to say what the situation is. Management researchers continue working to identify these situational variables. Exhibit MH-8 describes four popular contingency variables. Although the list is by no means comprehensive—more than 100 different variables have been identified—it represents those most widely used and gives you an idea of what we mean by the term *contingency variable*. The primary value of the contingency approach is that it stresses there are no simplistic or universal rules for managers to follow.

So what do managers face today when managing? Although the dawn of the information age is said to have begun with Samuel Morse's telegraph in 1837, the most dramatic changes in information technology have occurred in the latter part of the twentieth century and have directly affected the manager's job. Managers now may manage employees who are working from home or working halfway around the world. An organization's computing resources used to be mainframe computers locked away in temperature-controlled rooms and only accessed by the experts. Now, practically everyone in an organization is connected—wired or wireless—with devices no larger than the palm of the hand. Just like the impact of the Industrial Revolution in the 1700s on the emergence of management, the information age has brought dramatic changes that continue to influence the way organizations are managed.

CHAPTER SUMMARY
by Learning Outcomes

Describe some early management examples.

LEARNING OUTCOME MH 1

Studying history is important because it helps us see the origins of today's management practices and recognize what has and has not worked. We can see early examples of management practice in the construction of the Egyptian pyramids and in the arsenal of Venice. One important historical event was the publication of Adam Smith's *Wealth of Nations*, in which he argued the benefits of division of labor (job specialization). Another was the industrial revolution where it became more economical to manufacture in factories than at home. Managers were needed to manage these factories and these managers needed formal management theories to guide them.

Explain the various theories in the classical approach.

LEARNING OUTCOME MH 2

Frederick W. Taylor, known as the "father" of scientific management, studied manual work using scientific principles—that is, guidelines for improving production efficiency—to find the one best way to do those jobs. The Gilbreths' primary contribution was finding efficient hand-and-body motions and designing proper tools and equipment for optimizing work performance. Fayol believed that the functions of management were common to all business endeavors but also were distinct from other business functions. He developed 14 principles of management from which many current management concepts have evolved. Weber described an ideal type of organization he called a bureaucracy, characteristics that many of today's large organizations still have. Today's managers use the concepts of scientific management when they analyze basic work tasks to be performed, use time-and-motion study to eliminate wasted motions, hire the best qualified workers for a job, and design incentive systems based on output. They use general administrative theory when they perform the functions of management and structure their organizations so that resources are used efficiently and effectively.

Discuss the development and uses of the behavioral approach.

LEARNING OUTCOME MH 3

The early OB advocates (Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard) contributed various ideas, but all believed that people were the most important asset of the organization and should be managed accordingly. The Hawthorne Studies dramatically affected management beliefs about the role of people in organizations, leading to a new emphasis on the human behavior factor in managing. The behavioral approach has largely shaped how today's organizations are managed. Many current theories of motivation, leadership, group behavior and development, and other behavioral issues can be traced to the early OB advocates and the conclusions from the Hawthorne Studies.

Describe the quantitative approach.

LEARNING OUTCOME MH 4

The quantitative approach involves applications of statistics, optimization models, information models, and computer simulations to management activities. Today's managers use the quantitative approach, especially when making decisions, as they plan and control work activities such as allocating resources, improving quality, scheduling work, or determining optimum inventory levels. Total quality management—a management philosophy devoted to continual improvement and responding to customer needs and expectations—also makes use of quantitative methods to meet its goals.

Explain the various theories in the contemporary approach.

LEARNING OUTCOME MH 5

The systems approach says that an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. This approach provides a framework to help managers understand

how all the interdependent units work together in order to achieve the organization's goals and that decisions and actions taken in one organizational area will affect others. In this way, managers can recognize that organizations are not self-contained, but instead rely on their environment for essential inputs and as outlets to absorb their outputs.

The contingency approach says that organizations are different, face different situations, and require different ways of managing. It helps us understand management because it stresses there are no simplistic or universal rules for managers to follow. Instead, managers must look at their situation and determine that *if* this is the way my situation is, *then* this is the best way for me to manage.

mymanagementlab

To check your understanding of learning outcomes MH.1 – MH.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Explain why studying management history is important.
2. What early evidence of management practice can you describe?
3. Describe the important contributions made by the classical theorists.
4. What did the early advocates of OB contribute to our understanding of management?
5. Why were the Hawthorne Studies so critical to management history?
6. What kind of workplace would Henri Fayol create? How about Mary Parker Follett? How about Frederick W. Taylor?
7. Explain what the quantitative approach has contributed to the field of management.
8. Describe total quality management.
9. How do systems theory and the contingency approach make managers better at what they do?
10. How do societal trends influence the practice of management? What are the implications for someone studying management?

PREPARING FOR: My Career

MY TURN TO BE A MANAGER

- Choose two nonmanagement classes that you are currently enrolled in or have taken previously. Describe three ideas and concepts from those subject areas that might help you be a better manager.
- Read at least one current business article from any of the popular business periodicals each week for four weeks. Describe what each of the four articles is about and how each relates to any (or all) of the four approaches to management.
- Choose an organization with which you are familiar and describe the job specialization used there. Is it efficient and effective? Why or why not? How could it be improved?
- Can scientific management principles help you be more efficient? Choose a task that you do regularly (such as laundry, fixing dinner, grocery shopping, studying for exams, etc.). Analyze it by writing down the steps involved in completing that task. See if there are activities that could be combined or eliminated. Find the "one best way" to do this task! And the next time you have to do the task, try the scientifically managed way! See if you become more efficient (keeping in mind that changing habits isn't easy to do).
- How do business organizations survive for 100+ years? Obviously, they've seen a lot of historical events come and go! Choose one of these companies and research

their history: Coca-Cola, Procter & Gamble, Avon, or General Electric. How has it changed over the years? From your research on this company, what did you learn that could help you be a better manager?

- Find the current top five best-selling management books. Read a review of the book or the book covers (or even the book!). Write a short paragraph describing what each book is about. Also, write about which of the historical management approaches you think the book fits into and how you think it fits into that approach.
- Pick one historical event from this century and do some research on it. Write a paper describing the impact that this event might be having or has had on how workplaces are managed.
- Steve's and Mary's suggested readings: Gary Hamel, *The Future of Management* (Harvard Business School Press, 2007); Malcolm Gladwell, *Blink* (Little, Brown and Company, 2005); James C. Collins, *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (Harper Business, 2001); Matthew J. Kiernan, *The Eleven Commandments of 21st Century Management* (Prentice Hall, 1996); and James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (Harper Business, 1994).
- Come on, admit it. You multitask, don't you? And if not, you probably know people who do. Multitasking is also common in the workplace. But does it make employees more efficient and effective? Pretend you're the manager in charge of a loan processing department. Describe how you would research this issue using each of the following management approaches or theories: scientific management, general administrative theory, quantitative approach, behavioral approach, systems theory, and contingency theory.
- In your own words, write down three things you learned in this module about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete any of these self-assessment exercises: How Well Do I Respond to Turbulent Change? How Well Do I Handle Ambiguity? and What Do I Value? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

2 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Dana Robbins-Murray
Account Director
Caliber Group
Tucson, AZ

MY JOB:
I am an account director for Caliber Group, a full-service marketing/PR firm. My main responsibility is to work with our clients to determine what type of marketing or public relations they need to create better brand awareness and increase sales for their business.

BEST PART OF MY JOB:
Working with a large, diverse group of businesses that each have their own unique competitive environment, products or services to sell, and management style.

Understanding Management's Context: *Constraints and Challenges*

LEARNING OUTCOMES

2.1 **Contrast** the actions of managers according to the omnipotent and symbolic views. *page 44*

2.2 **Describe** the constraints and challenges facing managers in today's external environment. *page 46*

2.3 **Discuss** the characteristics and importance of organizational culture. *page 51*

2.4 **Describe** current issues in organizational culture. *page 58*

WORST PART OF MY JOB:
Budgets. In business, as in life, there are always budget limitations that we have to work within and still accomplish our goals.

BEST MANAGEMENT ADVICE EVER RECEIVED:
From my first boss—handle each piece of paper once. In the age of electronic correspondence you can relate this to e-mails as well. Basically the idea is to try to handle everything the first time around, so as not to waste time and energy. It's a hard mantra to practice but it's worthwhile if you can do it, at least most of the time.

A Manager's Dilemma

"Trial by ice." That's how one analyst described the aftermath of the 2007 Valentine's Day ice and snowstorm that dealt a crushing blow to JetBlue Airways operations.[1] With passengers stranded for hours on its planes stuck on runways and some 1,000 of its flights cancelled, the resulting uproar from customers and from airline regulators forced the company to take a long hard look at itself. It was definitely a low point for JetBlue. Fast forward three years. JetBlue did everything it could to learn from that experience and to make itself better. A critical and significant piece in that process has been the company's culture, which has developed around five key values: safety, caring, integrity, fun, and passion.

CEO Dave Barger (on left in photo) knows how important an organization's culture can be. He says, "The hard product—airplanes, leather seats, satellite TVs, bricks and mortar—as long as you have a checkbook, they can be replicated. It's the culture that can't be replicated. . . . The human side of the equation is the most important thing we're doing." As JetBlue continues to grow, even during rough economic times, how can managers ensure that its culture continues?

What Would You Do?

Here's a company that recognizes how important culture is! JetBlue created a culture in which employees are treated with respect and are viewed as a core strategic asset. Since that almost catastrophic collapse of its system in 2007, the company has topped all airlines in J.D. Power's annual customer-service survey for five years running. Undoubtedly, its employees and the culture they work in have played a key role in that accomplishment.

In this chapter, we're going to look at culture and other important aspects of management's context. We'll examine the challenges in the external environment and discuss the characteristics of organizational culture. But before we address these topics, we first need to look at two perspectives on how much impact managers actually have on an organization's success or failure.

LEARNING OUTCOME
Contrast the actions of managers according to the omnipotent and symbolic views.

2.1 The Manager: Omnipotent or Symbolic?

In February 2010, when Ford Motor Company surpassed General Motors in sales for the first time in at least 50 years, GM announced an overhaul in its top managers' ranks. GM's North American president said that "he could see clear as day that the mix and the structure of people weren't right and that these changes were necessary for GM to move faster and win."[2] Such a move shuffling managers is not all that uncommon in the corporate world, but why?

How much difference *does* a manager make in how an organization performs? The dominant view in management theory and society in general is that managers are directly responsible for an organization's success or failure. We call this perspective the **omnipotent view of management**. In contrast, others have argued that much of an organization's success or failure is due to external forces outside managers' control. This perspective is called the **symbolic view of management**. Let's look at each perspective to try and clarify just how much credit or blame managers should get for their organization's performance.

The Omnipotent View

In Chapter 1, we stressed how important managers were to organizations. Differences in an organization's performance are assumed to be due to decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor

performance, and lead their organizations. When profits are up, managers take the credit and are rewarded with bonuses, stock options, and the like. When profits are down, top managers are often fired in the belief that "new blood" will bring improved results. For instance, the CEO of Cott Corporation was fired because some of its largest customers were threatening to leave and the company's share prices had declined sharply.[3] In this view, someone has to be held accountable when organizations perform poorly regardless of the reasons, and that "someone" is the manager. Of course, when things go well, managers also get the credit—even if they had little to do with achieving the positive outcomes.

This view of managers as omnipotent is consistent with the stereotypical picture of the take-charge business executive who overcomes any obstacle in seeing that the organization achieves its goals. And this view isn't limited to business organizations. It also explains turnover among college and professional sports coaches, who are considered the "managers" of their teams. Coaches who lose more games than they win are usually fired and replaced by new coaches who are expected to correct the poor performance.

The Symbolic View

In the 1990s, Cisco Systems was the picture of success. Growing rapidly, it was widely praised by analysts for its "brilliant strategy, masterful management of acquisitions and superb customer focus."[4] As Cisco's performance declined during the early part of the twenty-first century, analysts said that its strategy was flawed, its acquisition approach was haphazard, and its customer service was poor. Was declining performance due to the managers' decisions and actions, or was it due to external circumstances beyond their control? The symbolic view would suggest the latter.

The symbolic view says that a manager's ability to affect performance outcomes is influenced and constrained by external factors.[5] According to this view, it's unreasonable to expect managers to significantly affect an organization's performance. Instead, performance is influenced by factors over which managers have little control such as the economy, customers, governmental policies, competitors' actions, industry conditions, and decisions made by previous managers.

This view is labeled "symbolic" because it's based on the belief that managers symbolize control and influence.[6] How do they do that? By developing plans, making decisions, and engaging in other managerial activities to make sense out of random, confusing, and ambiguous situations. However, the actual part that managers play in organizational success or failure is limited according to this view.

In reality, managers are neither all-powerful nor helpless. But their decisions and actions are constrained. As you can see in Exhibit 2-1, external constraints come from the organization's environment and internal constraints come from the organization's culture.

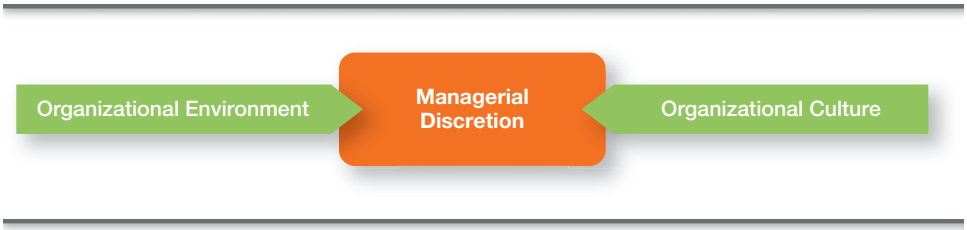


EXHIBIT 2-1
Constraints on Managerial Discretion

omnipotent view of management
The view that managers are directly responsible for an organization's success or failure

symbolic view of management
The view that much of an organization's success or failure is due to external forces outside managers' control

LEARNING OUTCOME 2.2
Describe the constraints and challenges facing managers in today's external environment.

The External Environment: Constraints and Challenges

Despite the fact that appliance sales are expected to climb for the first time in four years, Whirlpool Corporation, which already shut down 10 percent of its production capacity, continues to cut costs and scale down capacity even more.[7] And it's not alone in its protective, defensive actions. The decade from 2000 to 2009 was a challenging one for organizations. For instance, some well-known stand-alone businesses at the beginning of the decade were acquired by other companies during this time, including Compaq (now a part of Hewlett-Packard), Gillette (now a part of Procter & Gamble), Anheuser-Busch (now a part of Anheuser-Busch InBev), and Merrill Lynch (now a part of Bank of America); others disappeared altogether, including Lehman Brothers, Circuit City, and Steve & Barry's (all now bankrupt) and WorldCom and Enron (both done in by ethics scandals).[8] Anyone who doubts the impact the external environment has on managing just needs to look at what's happened during the last decade.

The term **external environment** refers to factors and forces outside the organization that affect its performance. As shown in Exhibit 2-2, it includes several different components. The economic component encompasses factors such as interest rates, inflation, changes in disposable income, stock market fluctuations, and business cycle stages. The demographic component is concerned with trends in population characteristics such as age, race, gender, education level, geographic location, income, and family composition. The political/legal component looks at federal, state, and local laws, as well as global laws and laws of other countries. It also includes a country's political conditions and stability. The sociocultural component is concerned with societal and cultural factors such as values, attitudes, trends, traditions, lifestyles, beliefs, tastes, and patterns of behavior. The technological component is concerned with scientific or industrial innovations. And the global component encompasses those issues associated with globalization and a world economy. Although all these components pose potential constraints on managers' decisions and actions, we're going to take a closer look at two of them—the economic and demographic aspects. Then, we'll look at how changes taking place in those components constrain managers and organizations. We'll wrap up this section by examining environmental uncertainty and stakeholder relationships.

EXHIBIT 2-2
Components of External Environment

FUTURE VISION

The Working World in 2020

More Diverse Than Ever

Two of the largest changes that we see happening in the makeup of the workforce in 2020 in the United States will be a significant increase in Hispanic and senior-citizen participation.

Hispanic-Americans are the fastest-growing segment of the U.S. population. They currently make up 15 percent of the population, although that number is forecasted to increase to 20 percent by 2025. In the southern part of the United States, the percentages will be higher. In cities such as Los Angeles, Phoenix, Tucson, El Paso, and Miami, more than a third of the population will be Hispanic. These general population percentages should translate equivalently to the labor force. The likelihood that you'll have a coworker whose first language is Spanish will be quite high.

You can also expect to see a graying of the workforce. By 2020, retiring at age 62 or 65 will have become passé. People are living longer and enjoying good health well into their 70s. Those who enjoy being actively engaged in a job won't want to give that up. On the other hand, there also will be those senior citizens who can't afford to retire and have to continue working to avoid financial strains. In fact, we saw this happening in the recession that began in 2008. Individuals who would like to have stepped away from their 8-to-5 jobs were happy to have a job and held onto that job. Now, envision that workplace where you'll also likely to be working with many older (age 65+) coworkers.

Again, these two demographic changes foretell a workplace in which as a manager or as coworkers, you're going to be interacting and working with others who may not think or act or do things the way you would.

The Economic Environment

You know the economic context has changed when a blue-ribbon company like General Motors declares bankruptcy; the Organization for Economic Cooperation and Development predicts some 25 million unemployed individuals globally; 8.4 million jobs in the United States vanish; and the economic vocabulary includes terminology such as *toxic assets, collateralized debt obligations, TARP, bailouts, economic stabilization, wraparound mortgages,* and *stress tests*.[9] To understand what this economic environment is like, we need to look at the changes that have taken place and the impact of those changes on the way organizations are managed.

The economic crisis—called the "Great Recession" by some analysts—began with turmoil in home mortgage markets in the United States when many homeowners found themselves unable to make their payments. The problems soon affected businesses as credit markets collapsed. All of a sudden, credit was no longer readily available to fund business activities. It didn't take long for these economic troubles to spread worldwide.

What caused these massive problems? Experts cite a long list of factors that include excessively low interest rates for a long period of time, fundamental flaws in the U.S. housing market, and massive global liquidity. Businesses and consumers became highly leveraged, which wasn't an issue when credit was easily available.[10] However, as liquidity dried up, the worldwide economic system sputtered and very nearly collapsed. Now, massive foreclosures, a huge public debt burden in many countries, and continuing widespread social problems from job losses signal clear changes in the U.S. and global economic environments. Even as global economies began the slow process of recovery, most experts believed that the economic environment facing managers and organizations would not be as it was and would continue to constrain organizational decisions and actions.

Let's Get Real

F2F

During the recession, my company *has had to be more aggressive and spend more time selling our services and differentiating ourselves from the competition.*

The Demographic Environment

Baby Boomers. Gen Y. Post-Millennials. Maybe you've heard or seen these terms before. Population researchers refer to three of the more well-known age groups found in the U.S. population by these terms. Baby Boomers are those individuals born between 1946 and 1964.

external environment
Those factors and forces outside the organization that affect its performance

So much is written and reported about "boomers" because there are so many of them. The sheer numbers of people in that cohort means they've significantly affected every aspect of the external environment (from the educational system to entertainment/lifestyle choices to the Social Security system and so forth) as they cycle through the various life stages.

Gen Y (or the "Millennials") is typically considered to encompass those individuals born between 1978 and 1994. As the children of the Baby Boomers, this age group is also large in number and making its imprint on external environmental conditions as well. From technology to clothing styles to work attitudes, Gen Y is affecting organizational workplaces.

Then, we have the Post-Millennials—the youngest identified age group—basically teens and middle-schoolers.[11] This group has also been called the iGeneration, primarily because they've grown up with technology that customizes everything to the individual. Population experts say it's too early to tell whether elementary school-aged children and younger are part of this demographic group or whether the world they live in will be so different that they'll comprise a different demographic cohort.

Demographic age cohorts are important to our study of management because, as we said earlier, large numbers of people at certain stages in the life cycle can constrain decisions and actions taken by businesses, governments, educational institutions, and other organizations. But demographics doesn't only look at current statistics, it also looks to the future. For instance, recent analysis of birth rates shows that more than 80 percent of babies being born worldwide are from Africa and Asia.[12] And here's an interesting fact: India has one of the world's youngest populations with more males under the age of 5 than the entire population of France. And by 2050, it's predicted that China will have more people age 65 and older than the rest of the world combined.[13] Consider the impact of such population trends on organizations and managers in the future.

How the External Environment Affects Managers

Knowing *what* the various components of the external environment are and examining certain aspects of that environment are important to managers. However, understanding *how* the environment affects managers is equally as important. We're going to look at three ways the environment constrains and challenges managers—first, through its impact on jobs and employment; next, through the environmental uncertainty that is present; and finally, through the various stakeholder relationships that exist between an organization and its external constituencies.

JOBS AND EMPLOYMENT As any or all external environmental conditions (economic, demographic, technological, globalization, etc.) change, one of the most powerful constraints managers face is the impact of such changes on jobs and employment—both in poor conditions and in good conditions. The power of this constraint became painfully obvious during the recent global recession as millions of jobs were eliminated and unemployment rates rose to levels not seen in many years. Economists now predict that about a quarter of the 8.4 million jobs eliminated in the United States during this most recent economic downturn won't be coming back and will instead be replaced by other types of work in growing industries.[14] Other countries face the same issues. Although such readjustments aren't bad in and of themselves, they do create challenges for managers who must balance work demands and having enough of the right types of people with the right skills to do the organization's work.

Not only do changes in external conditions affect the types of jobs that are available, they affect how those jobs are created and managed. For instance, many employers use flexible work arrangements to meet work output demand.[15] For instance, work tasks may be done by freelancers hired to work on an as-needed basis or by temporary workers who work full-time but are not permanent employees or by individuals who share jobs. Keep in mind that such responses have come about because of the constraints from the external environment. As a manager, you'll need to recognize how these work arrangements affect the way you plan, organize, lead, and control. This whole issue of flexible work arrangements has become so prevalent and part of how work is done in organizations that we'll address it in other chapters as well.

EXHIBIT 2-3
Environmental Uncertainty Matrix

	Stable	Dynamic
Simple	**Cell 1** Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	**Cell 2** Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
Complex	**Cell 3** Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	**Cell 4** Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

ASSESSING ENVIRONMENTAL UNCERTAINTY Another constraint posed by external environments is the amount of uncertainty found in that environment, which can affect organizational outcomes. **Environmental uncertainty** refers to the degree of change and complexity in an organization's environment. The matrix in Exhibit 2-3 shows these two aspects.

The first dimension of uncertainty is the degree of change. If the components in an organization's environment change frequently, it's a *dynamic* environment. If change is minimal, it's a *stable* one. A stable environment might be one with no new competitors, few technological breakthroughs by current competitors, little activity by pressure groups to influence the organization, and so forth. For instance, Zippo Manufacturing, best known for its Zippo lighters, faces a relatively stable environment, with few competitors and little technological change. The main external concern for the company is probably the declining numbers of tobacco smokers, although the company's lighters have other uses and global markets remain attractive. In contrast, the recorded music industry faces a dynamic (highly uncertain and unpredictable) environment. Digital formats and music-downloading sites turned the industry upside down and brought high levels of uncertainty.

If change is predictable, is that considered dynamic? No. Think of department stores that typically make one-quarter to one-third of their sales in November and December. The drop-off from December to January is significant. But because the change is predictable, the environment isn't considered dynamic. When we talk about degree of change, we mean change that's unpredictable. If change can be accurately anticipated, it's not an uncertainty for managers.

The other dimension of uncertainty describes the degree of **environmental complexity**, which looks at the number of components in an organization's environment and the extent of the knowledge that the organization has about those components. An organization with fewer competitors, customers, suppliers, government agencies, and so forth faces a less complex and uncertain environment. Organizations deal with environmental complexity in various

environmental uncertainty
The degree of change and complexity in an organization's environment

environmental complexity
The number of components in an organization's environment and the extent of the organization's knowledge about those components

Hot Topic CEO Betsy McLaughlin has a way with words and a way of knowing what an "audience" needs.[16] At the closing session of one of the retailer's annual store manager meetings a few years ago, she rapidly spouted off George Carlin's famous "Seven Dirty Words" . . . something she had practiced for days. Her employees roared in approval! It's probably not too many CEOs that would use that monologue as closing comments even if it was in front of coworkers. But that's McLaughlin's style and her style has propelled her company to retail success. Hot Topic is definitely not mainstream, but neither is McLaughlin. One coworker describes her as "all fun and all business. On a scale of 1 to 10, McLaughlin is an 11 in fun and a 13 in business." One thing that McLaughlin excels at is her ability to take in and read the environment and to understand the demands of various stakeholders. When she travels for work, she is constantly getting inspiration by paying attention to her environment. It's a lesson that all managers can learn from, even if George Carlin isn't your cup of tea!

ways. For example, Hasbro Toy Company simplified its environment by acquiring many of its competitors.

Complexity is also measured in terms of the knowledge an organization needs about its environment. For instance, managers at E*Trade must know a great deal about their Internet service provider's operations if they want to ensure that their Web site is available, reliable, and secure for their customers. On the other hand, managers of college bookstores have a minimal need for sophisticated knowledge about their suppliers.

How does the concept of environmental uncertainty influence managers? Looking again at Exhibit 2-3, each of the four cells represents different combinations of degree of complexity and degree of change. Cell 1 (stable and simple environment) represents the lowest level of environmental uncertainty and cell 4 (dynamic and complex environment) the highest. Not surprisingly, managers have the greatest influence on organizational outcomes in cell 1 and the least in cell 4. Because uncertainty poses a threat to an organization's effectiveness, managers try to minimize it. Given a choice, managers would prefer to operate in the least uncertain environments. However, they rarely control that choice. In addition, the nature of the external environment today is that most industries today are facing more dynamic change, making their environments more uncertain.

MANAGING STAKEHOLDER RELATIONSHIPS What makes MTV a popular cable channel for young adults year after year? One factor is its success in building relationships with its various stakeholders: viewers, music celebrities, advertisers, affiliate TV stations, public service groups, and others. The nature of stakeholder relationships is another way in which the environment influences managers. The more obvious and secure these relationships, the more influence managers will have over organizational outcomes.

Qwerty on KAT.PH for more

Stakeholders are any constituencies in the organization's environment that are affected by an organization's decisions and actions. These groups have a stake in or are significantly influenced by what the organization does. In turn, these groups can influence the organization. For example, think of the groups that might be affected by the decisions and actions of Starbucks—coffee bean farmers, employees, specialty coffee competitors, local communities, and so forth. Some of these stakeholders also, in turn, may influence decisions and actions of Starbucks' managers. The idea that organizations have stakeholders is now widely accepted by both management academics and practicing managers.[17]

Exhibit 2-4 identifies some of an organization's most common stakeholders. Note that these stakeholders include internal and external groups. Why? Because both can affect what an organization does and how it operates.

Why should managers even care about managing stakeholder relationships?[18] For one thing, it can lead to desirable organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degree of trust among stakeholders, and greater organizational flexibility to reduce the impact of change. But does it affect organizational performance? The answer is yes! Management researchers who have looked at this issue are finding that managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.[19]

Another reason for managing external stakeholder relationships is that it's the "right" thing to do. Because an organization depends on these external groups as sources of inputs (resources) and as outlets for outputs (goods and services), managers need to consider their

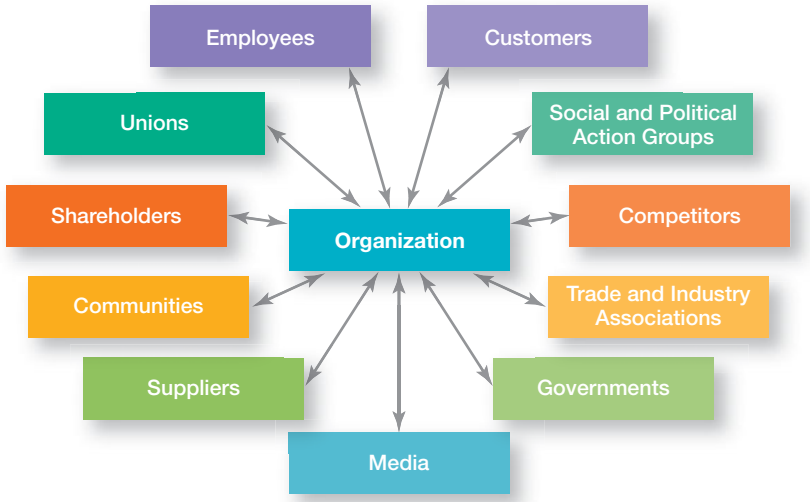


EXHIBIT 2-4
Organizational Stakeholders

interests as they make decisions. We'll address this issue in more detail in the chapter on corporate social responsibility.

Organizational Culture: Constraints and Challenges

2.3 LEARNING OUTCOME
Discuss the characteristics and importance of organizational culture.

Each of us has a unique personality—traits and characteristics that influence the way we act and interact with others. When we describe someone as warm, open, relaxed, shy, or aggressive, we're describing personality traits. An organization, too, has a personality, which we call its *culture*. And that culture influences the way employees act and interact with others.

What Is Organizational Culture?

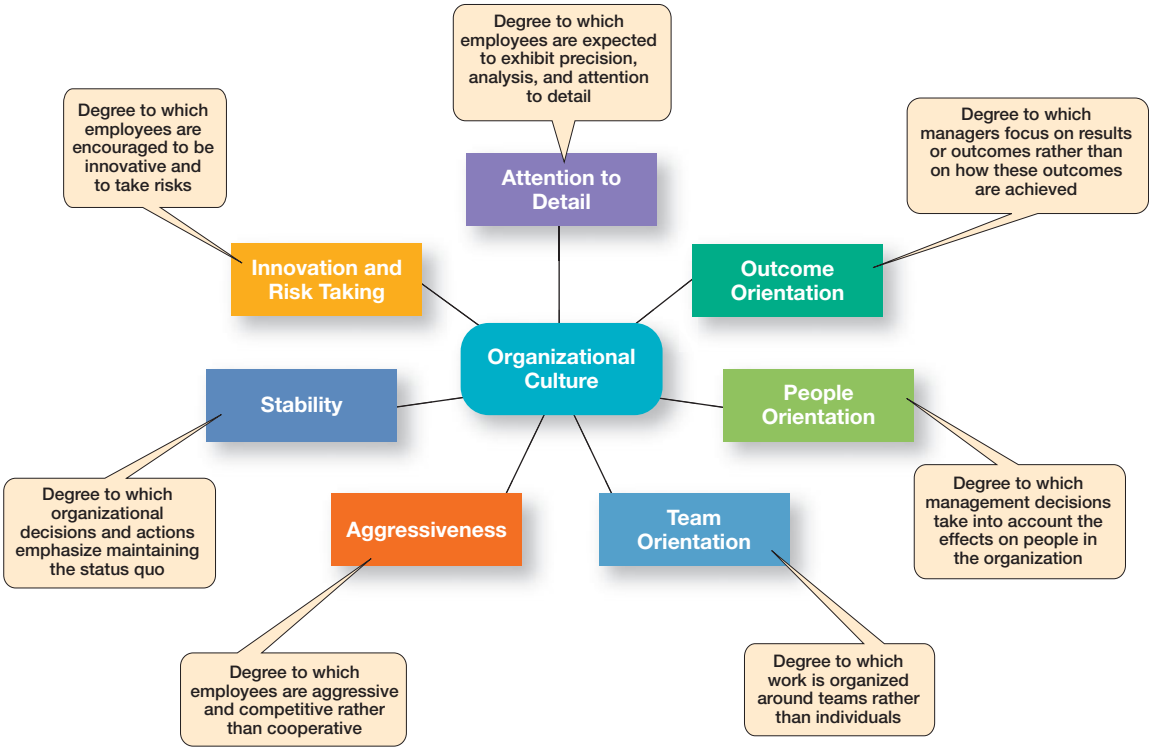
Like JetBlue in our chapter opener, W. L. Gore & Associates, a company known for its innovative and high-quality fabrics used in outdoor wear and other products, also understands the importance of organizational culture. Since its founding in 1958, Gore has used employee teams in a flexible, nonhierarchical organizational arrangement to develop its innovative products. Associates (employees) at Gore are committed to four basic principles articulated by company founder Bill Gore: (1) fairness to one another and everyone you come in contact with; (2) freedom to encourage, help, and allow other associates to grow in knowledge, skill, and scope of responsibility; (3) the ability to make your own commitments and keep them; and (4) consulting other associates before taking actions that could affect the company's reputation. After a visit to the company, one analyst reported that an associate told him, "If you tell anybody what to do here, they'll never work for you again." That's the type of independent, people-oriented culture Bill Gore wanted. And it works well for the company—it's earned a position on *Fortune*'s annual list of "100 Best Companies to Work For" every year since the list began in 1998, one of only three companies to achieve that distinction.[20]

Let's Get Real

To me, organizational culture is
the environment and attitudes within the business. It is an organic entity and takes time to change.

stakeholders
Any constituencies in the organization's environment that are affected by an organization's decisions and actions

EXHIBIT 2-5
Dimensions of Organizational Culture



Organizational culture has been described as the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. In most organizations, these shared values and practices have evolved over time and determine, to a large extent, how "things are done around here."[21]

Our definition of culture implies three things. First, culture is a *perception.* It's not something that can be physically touched or seen, but employees perceive it on the basis of what they experience within the organization. Second, organizational culture is *descriptive.* It's concerned with how members perceive the culture and describe it, not with whether they like it. Finally, even though individuals may have different backgrounds or work at different organizational levels, they tend to describe the organization's culture in similar terms. That's the *shared* aspect of culture.

Research suggests seven dimensions that can be used to describe an organization's culture.[22] These dimensions (shown in Exhibit 2-5) range from low to high, meaning it's not very typical of the culture (low) or is very typical of the culture (high). Describing an organization using these seven dimensions gives a composite picture of the organization's culture. In many organizations, one cultural dimension often is emphasized more than the others and essentially shapes the organization's personality and the way organizational members work. For instance, at Sony Corporation the focus is product innovation (innovation and risk taking). The company "lives and breathes" new product development and employees' work behaviors support that goal. In contrast, Southwest Airlines has made its employees a central part of its culture (people orientation). Exhibit 2-6 describes how the dimensions can create significantly different cultures.

Strong Cultures

All organizations have cultures, but not all cultures equally influence employees' behaviors and actions. **Strong cultures**—those in which the key values are deeply held and widely shared—have a greater influence on employees than do weaker cultures.

EXHIBIT 2-6
Contrasting Organizational Cultures

Organization A
This organization is a manufacturing firm. Managers are expected to fully document all decisions, and "good managers" are those who can provide detailed data to support their recommendations. Creative decisions that incur significant change or risk are not encouraged. Because managers of failed projects are openly criticized and penalized, managers try not to implement ideas that deviate much from the status quo. One lower-level manager quoted an often-used phrase in the company: "If it ain't broke, don't fix it."

Employees are required to follow extensive rules and regulations in this firm. Managers supervise employees closely to ensure that there are no deviations. Management is concerned with high productivity, regardless of the impact on employee morale or turnover.

Work activities are designed around individuals. There are distinct departments and lines of authority, and employees are expected to minimize formal contact with other employees outside their functional area or line of command. Performance evaluations and rewards emphasize individual effort, although seniority tends to be the primary factor in the determination of pay raises and promotions.

Organization B
This organization is also a manufacturing firm. Here, however, management encourages and rewards risk taking and change. Decisions based on intuition are valued as much as those that are well rationalized. Management prides itself on its history of experimenting with new technologies and its success in regularly introducing innovative products. Managers or employees who have a good idea are encouraged to "run with it," and failures are treated as "learning experiences." The company prides itself on being market driven and rapidly responsive to the changing needs of its customers.

There are few rules and regulations for employees to follow, and supervision is loose because management believes that its employees are hardworking and trustworthy. Management is concerned with high productivity but believes that this comes through treating its people right. The company is proud of its reputation as being a good place to work.

Job activities are designed around work teams, and team members are encouraged to interact with people across functions and authority levels. Employees talk positively about the competition between teams. Individuals and teams have goals, and bonuses are based on achievement of outcomes. Employees are given considerable autonomy in choosing the means by which the goals are attained.

(Exhibit 2-7 contrasts strong and weak cultures.) The more employees accept the organization's key values and the greater their commitment to those values, the stronger the culture is. Most organizations have moderate to strong cultures; that is, there is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. The stronger a culture becomes, the more it affects the way managers plan, organize, lead, and control.[23]

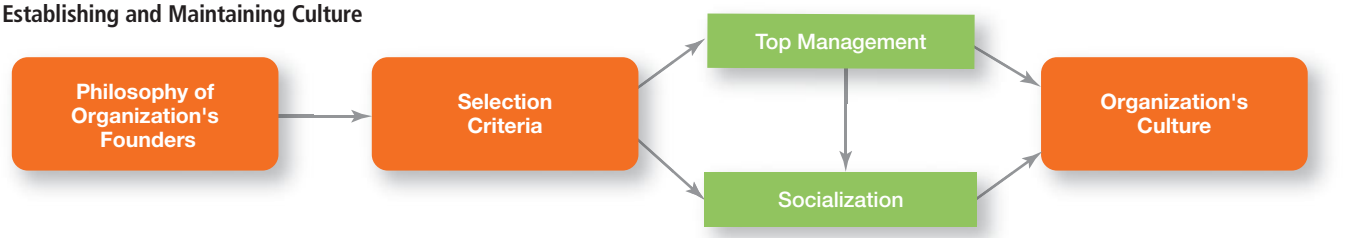
EXHIBIT 2-7
Strong Versus Weak Cultures

Strong Cultures	Weak Cultures
Values widely shared	Values limited to a few people—usually top management
Culture conveys consistent messages about what's important	Culture sends contradictory messages about what's important
Most employees can tell stories about company history or heroes	Employees have little knowledge of company history or heroes
Employees strongly identify with culture	Employees have little identification with culture
Strong connection between shared values and behaviors	Little connection between shared values and behaviors

organizational culture
The shared values, principles, traditions, and ways of doing things that influence the way organizational members act

strong cultures
Organizational cultures in which the key values are intensely held and widely shared

EXHIBIT 2-8
Establishing and Maintaining Culture



Why is having a strong culture important? For one thing, in organizations with strong cultures, employees are more loyal than are employees in organizations with weak cultures.[24] Research also suggests that strong cultures are associated with high organizational performance.[25] And it's easy to understand why. After all, if values are clear and widely accepted, employees know what they're supposed to do and what's expected of them, so they can act quickly to take care of problems. However, the drawback is that a strong culture also might prevent employees from trying new approaches especially when conditions are changing rapidly.[26]

Where Culture Comes From and How It Continues

Exhibit 2-8 illustrates how an organization's culture is established and maintained. The original source of the culture usually reflects the vision of the founders. For instance, as we described earlier, W. L. Gore's culture reflects the values of founder Bill Gore. Company founders are not constrained by previous customs or approaches and can establish the early culture by articulating a vision of what they want the organization to be. Also, the small size of most new organizations makes it easier to instill that vision with all organizational members.

Once the culture is in place, however, certain organizational practices help maintain it. For instance, during the employee selection process, managers typically judge job candidates not only on the job requirements, but also on how well they might fit into the organization. At the same time, job candidates find out information about the organization and determine whether they are comfortable with what they see.

The actions of top managers also have a major impact on the organization's culture. For instance, at Best Buy, the company's chief marketing officer would take groups of employees for "regular tours of what the company called its retail hospital." Wearing white lab coats, employees would walk into a room with a row of real hospital beds and patient charts describing the ills affecting each of the company's major competitors. Now that each of those competitors has "succumbed to terminal illness" and is no longer in business, the room is darkened. Just think of the powerful message such a display would have on employees and their work.[27] Through what they say and how they behave, top managers establish norms that filter down through the organization and can have a positive effect on employees' behaviors. For instance, IBM's CEO Sam Palmisano wanted employees to value teamwork so he chose to take several million dollars from his yearly bonus and give it to his top executives based on their teamwork. He said, "If you say you're about a team, you have to be a team. You've got to walk the talk, right?"[28] However, as we've seen in numerous corporate ethics scandals, the actions of top managers also can lead to undesirable outcomes.

Finally, organizations help employees adapt to the culture through **socialization**, a process that helps new employees learn the organization's way of doing things. For instance, new employees at Starbucks stores go through 24 hours of intensive training that helps turn them into brewing consultants (baristas). They learn company philosophy, company jargon, and even how to assist customers with decisions about beans, grind, and espresso machines.

One benefit of socialization is that employees understand the culture and are enthusiastic and knowledgeable with customers.[29] Another benefit is that it minimizes the chance that new employees who are unfamiliar with the organization's culture might disrupt current beliefs and customs.

How Employees Learn Culture

Employees "learn" an organization's culture in a number of ways. The most common are stories, rituals, material symbols, and language.

STORIES Organizational "stories" typically contain a narrative of significant events or people including such things as the organization's founders, rule breaking, reactions to past mistakes, and so forth.[30] Managers at Southwest Airlines tell stories celebrating employees who perform heroically for customers.[31] Such stories help convey what's important and provide examples that people can learn from. At 3M Company, the product innovation stories are legendary. There's the story about the 3M scientist who spilled chemicals on her tennis shoe and came up with Scotchgard. Then, there's the story about Art Fry, a 3M researcher, who wanted a better way to mark the pages of his church hymnal and invented the Post-It Note. These stories reflect what made 3M great and what it will take to continue that success.[32] To help employees learn the culture, organizational stories anchor the present in the past, provide explanations and legitimacy for current practices, exemplify what is important to the organization, and provide compelling pictures of an organization's goals.[33]

RITUALS In the early days of Facebook, founder Mark Zuckerberg had an artist paint a mural at company headquarters showing children taking over the world with laptops. Also, he would end employee meetings by pumping his fist in the air and leading employees in a chant of "domination." Although the cheering ritual was intended to be something simply fun, other company executives suggested he drop it because it made him seem silly and they feared that competitors might cite it as evidence of monopolistic goals.[34] That's the power that rituals can have in shaping what employees believe is important. Corporate rituals are repetitive sequences of activities that express and reinforce the important values and goals of the organization. One of the best-known corporate rituals is Mary Kay Cosmetics' annual awards ceremony for its sales representatives. Looking like a cross between a circus and a Miss America pageant, the ceremony takes place in a large auditorium, on a stage in front of a large, cheering audience, with all the participants dressed in glamorous evening clothes. Salespeople are rewarded for sales goal achievements with an array of expensive gifts including gold and diamond pins, furs, and pink Cadillacs. This "show" acts as a motivator by publicly acknowledging outstanding sales performance. In addition, the ritual aspect reinforces late founder Mary Kay's determination and optimism, which enabled her to overcome personal hardships, start her own company, and achieve material success. It conveys to her salespeople that reaching their sales goals is important and through hard work and encouragement, they too can achieve success. The contagious enthusiasm and excitement of Mary Kay sales representatives make it obvious that this annual "ritual" plays a significant role in establishing desired levels of motivation and behavioral expectations, which is, after all, what management hopes an organization's culture does.

MATERIAL ARTIFACTS AND SYMBOLS When you walk into different businesses, do you get a "feel" for what type of work environment it is—formal, casual, fun, serious, and so forth? These reactions demonstrate the power of material symbols or artifacts in creating an organization's personality.[35] The layout of an organization's facilities, how employees

socialization
The process that helps employees adapt to the organization's culture

At Mary Kay Cosmetics, celebrations honoring employee achievements are rituals that help shape what employees believe is important. In addition to its annual awards ceremony, the company repeatedly honors employees who set personal goals and work hard to achieve them. In this photo, coworkers present a beautiful flower bouquet to Hao Xiaojuan during a party marking her being named National Sales Distributor at the Mary Kay offices in Shanghai, China. These corporate rituals of performance recognition are powerful activities that reinforce the inspirational "You Can Do It" spirit of company founder Mary Kay Ash.

by the numbers[39]

8 percent of executives surveyed said that fostering a shared understanding of values was an important capability.

51 percent of employees polled said they felt there was no clear path toward advancement at their current employer.

43 percent of employees polled said they believed they could only advance if they left their current job.

69 percent of employees polled said their company was taking the right steps to weather the recession.

55 percent of employees polled said that their company would emerge from the recession stronger than it was going into the recession.

78 percent of college freshmen in 2009 said that "to be well-off financially" was very important or essential.

42 percent of college freshmen in 1969 said that "to be well-off financially" was very important or essential.

45 percent of employees surveyed said that their companies' ability to innovate was below average when it came to moving quickly from generating ideas to selling products.

dress, the types of automobiles provided to top executives, and the availability of corporate aircraft are examples of material symbols. Others include the size of offices, the elegance of furnishings, executive "perks" (extra benefits provided to managers such as health club memberships, use of company-owned facilities, and so forth), employee fitness centers or on-site dining facilities, and reserved parking spaces for certain employees. At WorldNow, a business that helps local media companies develop new online distribution channels and revenue streams, an important material symbol is an old dented drill that the founders purchased for $2 at a thrift store. The drill symbolizes the company's culture of "drilling down to solve problems." When an employee is presented with the drill in recognition of outstanding work, he or she is expected to personalize the drill in some way and devise a new rule for caring for it. One employee installed a Bart Simpson trigger; another made the drill wireless by adding an antenna. The company's "icon" carries on the culture even as the organization evolves and changes.[36]

Material symbols convey to employees who is important and the kinds of behavior (for example, risk taking, conservative, authoritarian, participative, individualistic, and so forth) that are expected and appropriate.

LANGUAGE Many organizations and units within organizations use language as a way to identify and unite members of a culture. By learning this language, members attest to their acceptance of the culture and their willingness to help preserve it. For instance, at Cranium, a Seattle board game company, "chiff" is used to remind employees of the need to be incessantly innovative in everything they do. "Chiff" stands for "clever, high-quality, innovative, friendly, fun."[37] At Build-A-Bear Workshop stores, employees are encouraged to use a sales technique called "Strive for Five," in which they work to sell each customer five items. The simple rhyming slogan is fast becoming a powerful tool to drive sales.[38]

Over time, organizations often develop unique terms to describe equipment, key personnel, suppliers, customers, processes, or products related to its business. New employees are frequently overwhelmed with acronyms and jargon that, after a short period of time, become a natural part of their language. Once learned, this language acts as a common denominator that bonds members.

How Culture Affects Managers

Houston-based Apache Corp. has become one of the best performers in the independent oil drilling business because it has fashioned a culture that values risk taking and quick decision making. Potential hires are judged on how much initiative they've shown in getting

projects done at other companies. And company employees are handsomely rewarded if they meet profit and production goals.[40] Because an organization's culture constrains what they can and cannot do and how they manage, it's particularly relevant to managers. Such constraints are rarely explicit. They're not written down. It's unlikely they'll even be spoken. But they're there, and all managers quickly learn what to do and not do in their organization. For instance, you won't find the following values written down, but each comes from a real organization.

- Look busy even if you're not.
- If you take risks and fail around here, you'll pay dearly for it.
- Before you make a decision, run it by your boss so that he or she is never surprised.
- We make our product only as good as the competition forces us to.
- What made us successful in the past will make us successful in the future.
- If you want to get to the top here, you have to be a team player.

The link between values such as these and managerial behavior is fairly straightforward. Take, for example, a so-called "ready-aim-fire" culture. In such an organization, managers will study and analyze proposed projects endlessly before committing to them. However, in a "ready-fire-aim" culture, managers take action and then analyze what has been done. Or, say an organization's culture supports the belief that profits can be increased by cost cutting and that the company's best interests are served by achieving slow but steady increases in quarterly earnings. Managers are unlikely to pursue programs that are innovative, risky, long term, or expansionary. In an organization whose culture conveys a basic distrust of employees, managers are more likely to use an authoritarian leadership style than a democratic one. Why? The culture establishes for managers appropriate and expected behavior. For example, Banco Santander, whose headquarters are located 20 kilometers from downtown Madrid, has been described as a "risk-control freak." The company's managers adhered to "banking's stodgiest virtues—conservatism and patience." However, it's those values that triggered the company's growth from the sixth largest bank in Spain to the largest bank in the euro zone.[41]

As shown in Exhibit 2-9, a manager's decisions are influenced by the culture in which he or she operates. An organization's culture, especially a strong one, influences and constrains the way managers plan, organize, lead, and control.

EXHIBIT 2-9
Managerial Decisions Affected by Culture

Planning
- The degree of risk that plans should contain
- Whether plans should be developed by individuals or teams
- The degree of environmental scanning in which management will engage

Organizing
- How much autonomy should be designed into employees' jobs
- Whether tasks should be done by individuals or in teams
- The degree to which department managers interact with each other

Leading
- The degree to which managers are concerned with increasing employee job satisfaction
- What leadership styles are appropriate
- Whether all disagreements—even constructive ones—should be eliminated

Controlling
- Whether to impose external controls or to allow employees to control their own actions
- What criteria should be emphasized in employee performance evaluations
- What repercussions will occur from exceeding one's budget

LEARNING OUTCOME
Describe current issues in organizational culture.

2.4

Current Issues in Organizational Culture

Nordstrom, the specialty retail chain, is renowned for its attention to customers. Nike's innovations in athletic shoe and apparel technology are legendary. Tom's of Maine is known for its commitment to doing things ethically and spiritually. How have these organizations achieved such reputations? Their organizational cultures have played a crucial role. Let's look at three current cultural issues: creating an innovative culture, creating a customer-responsive culture, and nurturing workplace spirituality.

Creating an Innovative Culture

You may not recognize IDEO's name, but you've probably used a number of its products. As a product design firm, it takes the ideas that corporations bring it and turns those ideas into reality. Some of its creations range from the first commercial mouse (for Apple) to the first standup toothpaste tube (for Procter & Gamble) to the handheld personal organizer (for Palm) to the Contour USB glucose meter (for Bayer AG). It's critical that IDEO's culture support creativity and innovation.[42] And you might actually own and use products from another well-known innovative organization—Apple.[43] From its founding in 1976 to today, Apple has been on the forefront of product design and development. They've brought us Mac, iPod, iTunes, iPhone, and the iPad tablet device that is changing the way you read materials such as this textbook. Although both these companies are in industries where innovation is critical to success, the fact is that any successful organization needs a culture that supports innovation. How important is culture to innovation? In a recent survey of senior executives, over half said that the most important driver of innovation for companies was a supportive corporate culture.[44]

What does an innovative culture look like? According to Swedish researcher Goran Ekvall, it would be characterized by the following:

- **Challenge and involvement** – Are employees involved in, motivated by, and committed to long-term goals and success of the organization?
- **Freedom** – Can employees independently define their work, exercise discretion, and take initiative in their day-to-day activities?
- **Trust and openness** – Are employees supportive and respectful to each other?
- **Idea time** – Do individuals have time to elaborate on new ideas before taking action?
- **Playfulness/humor** – Is the workplace spontaneous and fun?
- **Conflict resolution** – Do individuals make decisions and resolve issues based on the good of the organization versus personal interest?
- **Debates** – Are employees allowed to express opinions and put forth ideas for consideration and review?
- **Risk-taking** – Do managers tolerate uncertainty and ambiguity, and are employees rewarded for taking risks?[45]

Creating a Customer-Responsive Culture

Harrah's Entertainment, the world's largest gaming company, is fanatical about customer service and for good reason. Company research showed that customers who were satisfied with the service they received at a Harrah's casino increased their gaming expenditures by 10 percent and those who were extremely satisfied increased their gaming expenditures by 24 percent. When customer service translates into these types of results, of course managers would want to create a customer-responsive culture![46]

What does a customer-responsive culture look like?[47] Exhibit 2-10 describes five characteristics of customer-responsive cultures and offers suggestions as to what managers can do to create that type of culture.

Spirituality and Organizational Culture

What do Southwest Airlines, Chick-fil-A, Ford, Xerox, Timberland, and Hewlett-Packard have in common? They're among a growing number of organizations that have

EXHIBIT 2-10
Creating a Customer-Responsive Culture

Characteristics of Customer-Responsive Culture	Suggestions for Managers
Type of employee	Hire people with personalities and attitudes consistent with customer service: friendly, attentive, enthusiastic, patient, good listening skills
Type of job environment	Design jobs so employees have as much control as possible to satisfy customers, without rigid rules and procedures
Empowerment	Give service-contact employees the discretion to make day-to-day decisions on job-related activities
Role clarity	Reduce uncertainty about what service-contact employees can and cannot do by continual training on product knowledge, listening, and other behavioral skills
Consistent desire to satisfy and delight customers	Clarify organization's commitment to doing whatever it takes, even if it's outside an employee's normal job requirements

embraced workplace spirituality. What is **workplace spirituality**? It's a culture in which organizational values promote a sense of purpose through meaningful work taking place in the context of community.[48] Organizations with a spiritual culture recognize that people have a mind and a spirit, seek to find meaning and purpose in their work, and desire to connect with other human beings and be part of a community. And such desires aren't limited to workplaces, as a recent study showed that college students also are searching for meaning and purpose in life.[49]

Workplace spirituality seems to be important now for a number of reasons. Employees are looking for ways to cope with the stresses and pressures of a turbulent pace of life. Contemporary lifestyles—single-parent families, geographic mobility, temporary jobs, technologies that create distance between people—underscore the lack of community that

Since starting Build-A-Bear Workshop in 1997, company founder Maxine Clark has worked to create a supportive corporate culture that would inspire employee creativity and innovation. At company headquarters in Overland, Missouri, the work environment is playful, spontaneous, and fun. It's a place where dogs are welcome, bringing joy to employees like Katie Cernuto shown in this photo watching Jack, her yellow lab mix, play tug with Smash, another employee's dog. For a company whose mission is "to bring the Teddy Bear to life," a relaxed dress code and flexible work schedules add to a culture that employees describe as upbeat, happy, busy, and fun.

workplace spirituality
A culture where organizational values promote a sense of purpose through meaningful work that takes place in the context of community

many people feel. As humans, we crave involvement and connection. In addition, as baby boomers navigate mid-life issues, they're looking for something meaningful, something beyond the job. Others wish to integrate their personal life values with their professional lives. For others, formalized religion hasn't worked and they continue to look for anchors to replace a lack of faith and to fill a growing sense of emptiness. What type of culture can do all these things? What differentiates spiritual organizations from their nonspiritual counterparts? Research shows that spiritual organizations tend to have five cultural characteristics.[50]

1. *Strong sense of purpose.* Spiritual organizations build their cultures around a meaningful purpose. While profits are important, they're not the primary values of the organization. For instance, Timberland's slogan is "Boots, Brand, Belief," which embodies the company's intent to use its "resources, energy, and profits as a publicly traded footwear-and-apparel company to combat social ills, help the environment, and improve conditions for laborers around the globe . . . and to create a more productive, efficient, loyal, and committed employee base."[51]
2. *Focus on individual development.* Spiritual organizations recognize the worth and value of individuals. They aren't just providing jobs; they seek to create cultures in which employees can continually grow and learn.
3. *Trust and openness.* Spiritual organizations are characterized by mutual trust, honesty, and openness. Managers aren't afraid to admit mistakes. And they tend to be extremely upfront with employees, customers, and suppliers.
4. *Employee empowerment.* Managers trust employees to make thoughtful and conscientious decisions. For instance, at Southwest Airlines, employees—including flight attendants, baggage handlers, gate agents, and customer service representatives—are encouraged to take whatever action they deem necessary to meet customer needs or help fellow workers, even if it means going against company policies.
5. *Toleration of employee expression.* The final characteristic that differentiates spiritually based organizations is that they don't stifle employee emotions. They allow people to be themselves—to express their moods and feelings without guilt or fear of reprimand.

Critics of the spirituality movement have focused on two issues: legitimacy (Do organizations have the right to impose spiritual values on their employees?) and economics (Are spirituality and profits compatible?).

An emphasis on spirituality clearly has the potential to make some employees uneasy. Critics might argue that secular institutions, especially businesses, have no business imposing spiritual values on employees. This criticism is probably valid when spirituality is defined as bringing religion into the workplace.[52] However, it's less valid when the goal is helping employees find meaning in their work. If concerns about today's lifestyles and pressures truly characterize a growing number of workers, then maybe it is time for organizations to help employees find meaning and purpose in their work and to use the workplace to create a sense of community.

The issue of whether spirituality and profits are compatible is certainly important. Limited evidence suggests that the two may be compatible. One study found that companies that introduced spiritually based techniques improved productivity and significantly reduced turnover.[53] Another found that organizations that provided their employees with opportunities for spiritual development outperformed those that didn't.[54] Others reported that spirituality in organizations was positively related to creativity, ethics, employee satisfaction, job involvement, team performance, and organizational commitment.[55]

Let's Get Real:

My Response *to A Manager's Dilemma, page 44*

To ensure the culture continues, it has to be intertwined in every aspect of the business. The managers have to live it, but the employees have to believe it. The hardest challenge for JetBlue will be to steer the culture as the company grows. (I specifically use the word *steer* because I believe that a company culture is an organic entity, which changes with the company. You cannot control it directly but guide its direction.)

- JetBlue needs to continue to reinforce the culture using their five key values. The culture needs to be practiced every day in everything the company does, including the language used in memos and advertising, the hiring and promotion process, and the interaction with customers.
- A company culture cannot just come from the top down. Managers need to engage employees in the whole process. JetBlue should create employee teams who support and believe in the culture to help steer the culture as the company grows.

Management needs to listen to the employees and hear what they are saying, even if they don't want to hear it or don't believe what they hear. Use tools such as anonymous surveys, focus groups, and suggestion "boxes" to engage employees. Hearing the employees will help to gauge the culture of the company.

What Would You Do?

Dana Robbins-Murray
Account Director
Caliber Group
Tucson, AZ

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 2.1

Contrast the actions of managers according to the omnipotent and symbolic views.

According to the omnipotent view, managers are directly responsible for an organization's success or failure. The symbolic view argues that much of an organization's success or failure is due to external forces outside managers' control. The two constraints on manager's discretion are the organization's culture (internal) and the environment (external). Managers aren't totally constrained by these two factors since they can and do influence their culture and environment.

LEARNING OUTCOME 2.2

Describe the constraints and challenges facing managers in today's external environment.

The external environment includes those factors and forces outside the organization that affect its performance. The main components include economic, demographic, political/legal, sociocultural, technological, and global. Managers face constraints and challenges from these components because of the impact they have on jobs and employment, environmental uncertainty, and stakeholder relationships.

LEARNING OUTCOME 2.3

Discuss the characteristics and importance of organizational culture.

The seven dimensions of culture are attention to detail, outcome orientation, people orientation, team orientation, aggressiveness, stability, and innovation and risk taking. In organizations with strong cultures, employees are more loyal and performance tends to be higher. The stronger a culture becomes, the more it affects the way managers plan, organize, lead, and control. The original source of a culture reflects the vision of organizational founders. A culture is maintained by employee selection practices, the actions of top managers, and socialization processes. Also, culture is transmitted to employees through stories, rituals, material symbols, and language. These elements help employees "learn" what values and behaviors are important as well as who exemplifies those values. The culture affects how managers plan, organize, lead, and control.

LEARNING OUTCOME 2.4

Describe current issues in organizational culture.

The characteristics of an innovative culture are challenge and involvement, freedom, trust and openness, idea time, playfulness/humor, conflict resolution, debates, and risk-taking. A customer-responsive culture has five characteristics: outgoing and friendly employees; jobs with few rigid rules, procedures, and regulations; empowerment; clear roles and expectations; and employees who are conscientious in their desire to please the customer. Workplace spirituality is important because employees are looking for a counterbalance to the stresses and pressures of a turbulent pace of life. Aging baby boomers and other workers are looking for something meaningful in their lives, an involvement and connection that they often don't find in contemporary lifestyles, and to meet the needs that organized religion is not meeting for some of them. Spiritual organizations tend to have five characteristics: strong sense of purpose, focus on individual development, trust and openness, employee empowerment, and toleration of employee expression.

PEARSON mymanagementlab

To check your understanding of learning outcomes 2.1 – 2.4 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Describe the two perspectives on how much impact managers have on an organization's success or failure.
2. Why is it important for managers to understand the external environmental components?
3. Describe an effective culture for (a) a relatively stable environment and (b) a dynamic environment. Explain your choices.
4. "Businesses are built on relationships." What do you think this statement means? What are the implications for managing the external environment?
5. Refer to Exhibit 2-6. How would a first-line manager's job differ in these two organizations? How about a top-level manager's job?
6. Classrooms have cultures. Describe your classroom culture using the seven dimensions of organizational culture. Does the culture constrain your instructor? How? Does it constrain you as a student? How?
7. Can culture be a liability to an organization? Explain.
8. Discuss the impact of a strong culture on organizations and managers.
9. Using Exhibit 2-8, explain how a culture is formed and maintained.
10. Explain why workplace spirituality seems to be an important concern.

PREPARING FOR: My Career

ETHICS DILEMMA

In many ways, technology has made all of us more productive. However, ethical issues do arise in how and when technology is used. Take the sports arena. All kinds of technologically advanced sports equipment (swimsuits, golf clubs, ski suits, etc.) have been developed that can sometimes give competitors/players an edge over their opponents.[56] We saw it in swim meets at the Beijing summer Olympics and on the ski slopes at the Vancouver winter Olympics. What do you think? Is this an ethical use of technology? What if your school (or country) was competing for a championship and couldn't afford to outfit athletes in such equipment and it affected your ability to compete? Would that make a difference? What ethical guidelines might you suggest for such situations?

SKILLS EXERCISE

Developing Your Environmental Scanning Skill

About the Skill

Anticipating and interpreting changes that are taking place in the environment is an important skill that managers need. Information that comes from scanning the environment can be used in making decisions and taking actions. And managers at all levels of an organization need to know how to scan the environment for important information and trends.

Steps in Practicing the Skill

You can be more effective at scanning the environment if you use the following suggestions:[57]

1. *Decide which type of environmental information is important to your work.* Perhaps you need to know changes in customers' needs and desires or perhaps you need to know what your competitors are doing. Once you know the type of information that you'd like to have, you can look at the best ways to get that information.
2. *Regularly read and monitor pertinent information.* There is no scarcity of information to scan, but what you need to do is read those information sources that are pertinent. How do you know information sources are pertinent? They're pertinent if they provide you with the information that you identified as important.
3. *Incorporate the information that you get from your environmental scanning into your decisions and actions.* Unless you use the information you're getting, you're wasting your time getting it. Also, the more that you find you're using information from your environmental scanning, the more likely it is that you'll want to continue to invest time and other resources into gathering it. You'll see that this information is important to your being able to manage effectively and efficiently.

4. *Regularly review your environmental scanning activities.* If you find that you're spending too much time getting nonuseful information or if you're not using the pertinent information that you've gathered, you need to make some adjustments.
5. *Encourage your subordinates to be alert to information that is important.* Your employees can be your "eyes and ears" as well. Emphasize to them the importance of gathering and sharing information that may affect your work unit's performance.

Practicing the Skill

The following suggestions are activities you can do to practice and reinforce the behaviors associated with scanning the environment.

1. Select an organization with which you're familiar either as an employee or perhaps as a frequent customer. Assume that you're the top manager in this organization. What types of information from environmental scanning do you think would be important to you? Where would you find this information? Now assume that you're a first-level manager in this organization. Would the types of information you'd get from environmental scanning change? Explain.
2. Assume you're a regional manager for a large bookstore chain. Using the Internet, what types of environmental and competitive information were you able to identify? For each source, what information did you find that might help you do your job better?

WORKING TOGETHER

Team Exercise

Although all organizations face environmental constraints, the components in their external environments differ. Get into a small group with three to four other class members and choose one organization from two different industries. Describe the external components for each organization. How are your descriptions different for the two organizations? How are they similar? Now, using the same two organizations, see if you can identify the important stakeholders for these organizations. As a group, be prepared to share your information with the class and to explain your choices.

MY TURN TO BE A MANAGER

- Find two current examples in any of the popular business periodicals of the omnipotent and symbolic views of management. Write a paper describing what you found and how the two examples you found represent the views of management.
- Choose an organization with which you're familiar or one that you would like to know more about. Create a table identifying potential stakeholders of this organization. Then, indicate what particular interests or concerns these stakeholders might have.
- Pick two organizations that you interact with frequently (as an employee or as a customer) and assess their culture by looking at the following aspects:
  - *Physical Design* (buildings, furnishings, parking lot, office or store design): Where are they located and why? Where do customers and employees park? What does the office/store layout look like? What activities are encouraged or discouraged by the physical layout? What do these things say about what the organization values?
  - *Symbols* (logos, dress codes, slogans, philosophy statements): What values are highlighted? Where are logos displayed? Whose needs are emphasized? What concepts are emphasized? What actions are prohibited? Which are encouraged? Are there artifacts that are prominently displayed? What do those artifacts symbolize? What do these things say about what the organization values?
  - *Words* (stories, language, job titles): What stories are repeated? How are employees addressed? What do job titles say about the organization? Are jokes/anecdotes used in conversation? What do these things say about what the organization values?
  - *Policies and Activities* (rituals, ceremonies, financial rewards, policies for how customers or employees are treated) [Note: you may be able to assess this one only if you're an employee or know the organization well.] What activities are rewarded? Ignored? What kinds of people succeed? Fail? What rituals are important? Why? What events get commemorated? Why? What do these things say about what the organization values?
- If you belong to a student organization, evaluate its culture by answering the following: How would you describe the culture? How do new members learn the

culture? How is the culture maintained? If you don't belong to a student organization, talk to another student who does and evaluate it using the same questions.

- Steve's and Mary's suggested readings: G. Barna, *Master Leaders* (Barna Books), 2009; Terrence E. Deal and Allan A. Kennedy, *Corporate Culture: The Rites and Rituals of Corporate Life* (Perseus Books Group, 2000); Edgar H. Schein, *The Corporate Culture Survival Guide* (Jossey-Bass, 1999); and Kim S. Cameron and Robert E. Quinn, *Diagnosing and Changing Organizational Culture* (Jossey-Bass, 2005).
- Find one example of a company that represents each of the current issues in organizational culture. Describe what the company is doing that reflects its commitment to this culture.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete any of these self-assessment exercises: What's the Right Organizational Culture for Me? How Well Do I Respond to Turbulent Change? Am I Experiencing Work/Family Conflict? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Out of Control

Toyota Motor Company President Akio Toyoda, grandson of the company's founder, bows in apology during a press conference where he announced a global vehicle recall. Toyoda's gesture of bowing is the Japanese way of publicly expressing remorse as an act of contrition to restore faith in the company's brands.

With a worldwide recall of some 8 million cars and 51 deaths that U.S. regulators say have been caused by mechanical failures in its cars, Toyota Motor Corporation faces a corporate crisis of epic proportions.[58] What happened at the car company that had finally achieved the title of world's largest car maker? (It overtook General Motors in 2008.) What factors contributed to the mess it now found itself in?

At the core of Toyota's manufacturing prowess is the Toyota Production System (TPS), which has long been touted and revered as a model of corporate efficiency and quality. Four management principles (the 4P model) were at the core of TPS and guided employees: problem solving, people and partners, process, and philosophy. The idea behind these principles was that "Good Thinking Means Good Product." Taiichi Ohno, a long-time Toyota executive, is widely credited as the innovative genius behind TPS. During the 1950s, Ohno, along with a small core of other Toyota executives, developed several principles of car-making efficiency that became what is now known as lean manufacturing and just-in-time inventory management. "Ohno's ideas not only changed the auto industry, they changed late-twentieth-century manufacturing." At the very core of these concepts were attention to detail and a "noble frugality." However, over the years, it appears that Toyota's executives slowly lost the "purity" of that approach as the once-strong commitment to quality embedded in Toyota's corporate culture became lost in its aggressive moves to grow market share and achieve productivity gains.

From about 1995 to 2009, Toyota embarked on the "most aggressive overseas expansions in automotive history" and at the same time had a laser-like unparalleled focus on cutting costs. Four major cost-cutting and expansion initiatives severely strained organizational processes and employees. One initiative was localized

manufacturing. Starting in the late 1990s, Toyota established manufacturing hubs in Asia, North America, and Europe. Such an approach meant relying more on local suppliers and design teams to tailor cars to local tastes. Another initiative was called Construction of Cost Competitiveness for the 21st Century, or CCC21. It was a massive cost reduction program. Through an ongoing process of redesigning parts and working with suppliers, more than $10 billion of savings were achieved. The Value Innovation initiative was a more ambitious version of CCC21. Under this program, more savings were achieved by making the entire development process cheaper and by further cutting parts and production costs. And finally, the Global 15 initiative was a master global plan for attaining a 15 percent share of the global car market by 2010. As of mid-2010, Toyota had an 11.7 percent share of the worldwide car market. However, this "combination of high-speed global growth and ambitious cost cuts led to the quality lapses that tarnished the once-mighty brand." Toyota's president, Akio Toyoda apologized for the company's actions and said, "We pursued growth over the speed at which we were able to develop our people and our organization. I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced."

So what is Toyota doing to remedy its problems? In addition to the massive recall, the company's president says that it is setting up a system to respond more quickly to complaints. In fact, the automaker has promised to give regional executives a bigger role in issuing recalls based on local consumer complaints, although Mr. Toyoda says that the final decisions regarding recalls will continue to be made in Japan. The company is also holding twice-yearly global quality meetings and more frequent regional quality meetings. And finally, the company is re-committing itself to better training employees in quality control.

Discussion Questions

1. Using Exhibit 2-5 and the information from the case, describe the culture at Toyota Motor Corporation. Why do you think this type of culture might be important to a car maker?
2. How do you think a long-standing culture that had such a strong commitment to quality lost its ability to influence employee behaviors and actions? What lesson can be learned about organizational culture from this?
3. Do you think it was important for Mr. Toyoda to apologize for the company's decisions? Why? (Think in terms of the company's stakeholders.)
4. What could other organizations learn from Toyota's experiences about the importance of organizational culture?

CASE APPLICATION 2

Dressing Up

Even when times are good, the department store industry is one of the toughest industries to compete in. Like many of its competitors, Kohl's Corporation struggles to find a way to continue its successes even when faced with a drastically changed external environment.[59] Based in Menomonee Falls, Wisconsin, Kohl's has more than 1,050 discount department stores in 49 states. The company has aggressively moved into the western and southern United States, although nearly a quarter of its stores are located in the Midwest. In 2010, the company had revenues of over $17.1 billion and profits of $991 million. One analyst has described Kohl's as "the best-positioned department store in this economy and one of the leading retailers with respect to inventory management, technological innovation, and merchandising and marketing execution." However, to continue its successes, it's important that Kohl's understand its external environment.

The retail shopping environment has changed. Customers became disenchanted with the shopping experience at many retail establishments. Long checkout lines, missing or vague product information, out-of-stock products, incorrect price tags, and scarce and often unknowledgeable sales staff made the shopping

experience quite unpleasant. Local shopping malls and their anchor department stores lost much of their popularity with shoppers. Coupled with the economic and demographic shifts taking place, department stores faced big challenges.

Kohl's has done business differently than most department stores. Its approach is built around convenience and price. Its typical store is a box-like structure with one floor of merchandise under inexpensive lighting where shoppers use carts as they browse through the simple racks and shelves of clothing, shoes, and home apparel merchandise. The company is especially selective about its locations. Everything about the way Kohl's does business—who it sells to and how those customers shop—hinges on where it puts its stores. Its goal is to set up shop in the heart of "soccer mom country." It tries to avoid malls when looking at store sites, believing that its target customers—young mothers—typically don't have the time for a long drive to a mall location and certainly don't want the parking hassles when they do go shopping. Kohl's approach has been free-standing buildings with smaller parking lots in retailing power centers (a retailing destination where several large, specialty brand retailers often locate together) and other kinds of strip malls. For instance, the Kohl's store in Springfield, Missouri, is located adjacent to a Walmart Super Center, a Home Depot, a McDonald's, a Michael's hobby and crafts store, and other casual dining restaurants. The company's target market is women ages 25 to 54 who have children and whose annual household income is moderate ranging from $35,000 to $75,000. Even the merchandise selection offered at Kohl's is aimed at this target demographic by selling casual brands (such as Sag Harbor, Villager, Union Bay, Haggar, Jockey, HealthTex, and others) at low prices. To continue attracting this segment, Kohl's added a home furnishings collection called Casa Cristina (named for Cristina Saralegui, the host of a Spanish-language television show on Univision) and its own Food Network brand of dinnerware and cooking tools. In addition, the company has brought on board popular designers—including Vera Wang and Lauren Conrad—with lines of clothing, shoes, and home goods. Kohl's believed that their customers wanted to and were willing to purchase more fashionable merchandise selections. As one retail expert put it, "The chains have decided to design apparel on their own, ensuring that their lower-income customers can buy skinny jeans and satchel bags at the same time as shoppers at higher-end stores."

Although Kohl's has done well so far in a difficult industry, it faces some serious challenges. In addition to the uncertain external environment, competitors ranging from JCPenney and Sears to Macy's have copied its approach. Even specialty retailers such as Old Navy (a unit of Gap, Inc.) and American Eagle have shifted from trendy teenage fashion toward clothing that appeals to moms. And on the discount end, Walmart Stores has added national brands and improved the quality of its apparel.

Discussion Questions

1. According to the case, what external trends did managers at Kohl's have to deal with? In addition to these, what other external components might be important to these managers? (See Exhibit 2-2.) How might they keep track of changes in these components?
2. If you were a manager at Kohl's headquarters, what types of external information might you want? What if you were a manager of a local Kohl's store? What types of external information might you want?
3. Look at Exhibit 2-3. In what cell of the environmental uncertainty matrix would you place Kohl's? Why? How might Kohl's managers "manage" the environmental uncertainty?
4. What stakeholders do you think might be important to a company like Kohl's? What issues/concerns might be important to those stakeholders? Explain your choices.

3 CHAPTER

Let's Get Real:

You'll be hearing more from this real manager throughout the chapter.

Meet the Manager

Cheryl Trewatha
Sr. Group Manager Quality Assurance
Target Corp.
Brooklyn Park, MN

MY JOB:
My team validates that Target branded product shipped from anywhere in the world meets U.S. federal, state, and Target quality, safety, and performance standards.

BEST PART OF MY JOB:
Because my team is responsible for handling the diverse group of products from the more than a dozen countries that we manufacture in, we are always facing new, unique, and ever-changing problems to solve.

Managing *in a* Global Environment

LEARNING OUTCOMES

3.1 **Contrast** ethnocentric, polycentric, and geocentric attitudes toward global business. *page 71*

3.2 **Discuss** the importance of regional trading alliances and global trade mechanisms. *page 72*

3.3 **Describe** the structures and techniques organizations use as they go international. *page 77*

3.4 **Explain** the relevance of the political/legal, economic, and cultural environments to global business. *page 80*

WORST PART OF MY JOB:
Trying to interpret laws and regulations set by state and federal governing bodies around product manufacturing and compliance and apply them to a worldwide manufacturing base.

BEST MANAGEMENT ADVICE EVER RECEIVED:
Your team is your most valuable resource; be sure to maximize its potential.

A Manager's Dilemma

Crunchy Taco—Potato. Paneer (cheese) and Potato Burritos.[1] These names may sound strange unless you're a customer at a Taco Bell restaurant in India. Yum Brands Inc. (the parent company of Taco Bell, Pizza Hut, and KFC) opened its first Taco Bell in Bangalore in early 2010. With an increasingly affluent consumer base, India is an attractive market for fast-food chains. Graham Allen, president of Yum's international division, said, "What we're seeing in India is similar to what we saw in China a decade ago. You have a young population with improving standards of living and an enthusiasm to embrace Western brands." However, Yum's push into India puts it into a battle with the other major fast-food companies for the wallets and appetites of consumers in one of the world's most populous countries.

Although 60 percent of Yum's profits now come from overseas markets, Graham Allen and Niren Chaudhary, the managing director of Yum's India business, recognize the challenges that face them in establishing a strong presence in India. One such challenge is understanding the cultural differences in managing employees. How will corporate processes and procedures need to change to accommodate its newly hired Indian employees?

What Would You Do?

Despite their vast experience in global markets, managers at Yum Brands still face challenges as they enter new markets. Even large successful organizations with talented managers (such as Yum Brands) don't always do it right. Despite these challenges, going global is something that most organizations want to do. A study of U.S. manufacturing firms found that companies that operated in multiple countries had twice the sales growth and significantly higher profitability than strictly domestic firms.[2] However, if managers don't closely monitor changes in their global environment or don't consider specific location characteristics as they plan, organize, lead, and control, they may find limited global success. In this chapter, we're going to discuss the issues managers face as they manage in a global environment.

Who Owns What?

One way to see how global the marketplace has become is to consider the country of ownership origin for some familiar products. You might be surprised to find that many products you thought were made by U.S. companies aren't! Take the following quiz[3] and then check your answers at the end of the chapter on page 95.

1. Tombstone and DiGiorno frozen pizzas are products of a company based in:
   a. Italy b. United States c. Canada d. Switzerland
2. Lebedyansky juices are owned by a company based in:
   a. Japan b. United Kingdom c. United States d. Russia
3. Rajah spices are products of a company based in:
   a. United States b. Brazil c. India d. Switzerland
4. Tetley Tea is owned by a company located in:
   a. Great Britain b. India c. Japan d. Spain
5. Volvo cars are products of a company based in:
   a. United States b. United Kingdom c. Japan d. China
6. Dos Equis, Tecate, and Sol beer products are owned by a company based in:
   a. The Netherlands b. Mexico c. United States d. Colombia
7. The company that produces Boboli pizza crust is based in:
   a. United States b. Mexico c. Italy d. Spain

8. The parent company of Braun electric shavers is located in:
   a. Switzerland b. Germany c. United States d. Japan
9. The company that owns Sephora Cosmetics retail stores is located in:
   a. Germany b. Canada c. France d. United States
10. The digital ad firm Barbarian Group is owned by a company based in:
    a. United Kingdom b. United States c. Greece d. South Korea
11. Lean Cuisine frozen meals are products of a company based in:
    a. Germany b. United States c. Switzerland d. Brazil
12. The British newspaper, the *Independent,* is owned by a company based in:
    a. Russia b. United Kingdom c. South Africa d. Canada
13. The company that makes French's mustard is based in:
    a. China b. United Kingdom c. Japan d. United States
14. Eight O'Clock Coffee is owned by a company located in:
    a. India b. Costa Rica c. United States d. Canada
15. Frédérick Fekkai & Co. hair care products are marketed by a company based in:
    a. Switzerland b. United States c. France d. Italy

How well did you do? Were you aware of how many products we use every day that are made by companies *not* based in the United States? Probably not! Most of us don't fully appreciate the truly global nature of today's marketplace.

What's Your Global Perspective?

3.1

LEARNING OUTCOME
Contrast ethnocentric, polycentric, and geocentric attitudes toward global business.

It's not unusual for Germans, Italians, or Indonesians to speak three or four languages. "More than half of all primary school children in China now learn English and the number of English speakers in India and China—500 million—now exceeds the total number of mother-tongue English speakers elsewhere in the world." On the other hand, most U.S. children study only English in school—only 24,000 are studying Chinese. And only 22 percent of the population in the United States speaks a language other than English.[4] Americans tend to think of English as the only international business language and don't see a need to study other languages. This could lead to future problems as a major research report commissioned by the British Council says that the "competitiveness of both Britain and the United States is being undermined" by only speaking English.[5]

Monolingualism is one sign that a nation suffers from **parochialism**—viewing the world solely through one's own eyes and perspectives.[6] People with a parochial attitude do not recognize that others have different ways of living and working. They ignore others' values and customs and rigidly apply an attitude of "ours is better than theirs" to foreign cultures. This type of narrow, restricted attitude is one approach that managers might take, but isn't the only one.[7] In fact, there are three possible global attitudes. Let's look at each more closely.

First, an **ethnocentric attitude** is the parochialistic belief that the best work approaches and practices are those of the *home* country (the country in which the company's headquarters are located). Managers with an ethnocentric attitude believe that people in foreign countries don't have the needed skills, expertise, knowledge, or experience to make the best business decisions as people in the home country do. They don't trust foreign employees with key decisions or technology.

parochialism
Viewing the world solely through your own perspectives, leading to an inability to recognize differences between people

ethnocentric attitude
The parochialistic belief that the best work approaches and practices are those of the home country

She was recently named, for the fourth year straight, the Most Powerful Woman in Business by *Fortune* magazine and was named one of the 100 most powerful women in the world by *Forbes* magazine.[9] "She" is Indra Nooyi, CEO of PepsiCo. Born in India, Ms. Nooyi joined PepsiCo as head of corporate strategy in 1994 and moved quickly up the ladder to become chief executive officer. In 2007, she also assumed the role of chairman of PepsiCo's board of directors. As the CEO of a large American company, Nooyi recognizes how important her company's global business operations are. On a recent trip to China, a critical market for PepsiCo, Nooyi didn't take the usual "CEO tour" of conference rooms, but spent 10 days immersing herself in China. She says, "I wanted to look at how people live, how they eat, what the growth possibilities are." Here's a leader who knows what it will take to succeed in today's global environment.

Next, a **polycentric attitude** is the view that employees in the *host* country (the foreign country in which the organization is doing business) know the best work approaches and practices for running their business. Managers with this attitude view every foreign operation as different and hard to understand. Thus, they're likely to let employees there figure out how best to do things.

The final type of global attitude managers might have is a **geocentric attitude**, a *world-oriented* view that focuses on using the best approaches and people from around the globe. Managers with this type of attitude have a global view and look for the best approaches and people regardless of origin. For instance, Carlos Ghosn, CEO of Nissan and Renault, was born in Brazil to Lebanese parents, educated in France, and speaks four languages fluently. He could very well be the "model of the modern major corporate leader in a globalized world bestraddled by multinational companies."[8] Ghosn's background and perspective have given him a much broader understanding of what it takes to manage in a global environment, something that is characteristic of the geocentric attitude. A geocentric attitude requires eliminating parochial attitudes and developing an understanding of cross-cultural differences. That's the type of approach successful managers will need in today's global environment.

LEARNING OUTCOME
Discuss the importance of regional trading alliances and global trade mechanisms.

3.2 Understanding the Global Environment

One important feature of today's global environment is global trade which, if you remember history class, isn't new. Countries and organizations have been trading with each other for centuries.[10] And it continues strong today, as we saw in the chapter-opening quiz. Global trade today is shaped by two forces: regional trading alliances and trade mechanisms that ensure that global trade can happen.

Regional Trading Alliances

Global competition once was considered country against country—the United States versus Japan, France versus Germany, Mexico versus Canada, and so on. Now, global competition is shaped by regional trading agreements including the European Union (EU), North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations (ASEAN), and others.

THE EUROPEAN UNION. The **European Union (EU)** is an economic and political partnership of 27 democratic European countries. (See Exhibit 3-1.) Three countries (Croatia, Macedonia, and Turkey) have applied for membership and analysts predict that Croatia will be the next to gain membership in 2012 or 2013.[11] When the 12 original members formed the EU in 1992, the primary motivation was to reassert the region's economic position against the United States and Japan. Before then, each European nation had border controls, taxes, and subsidies; nationalistic policies; and protected industries. These barriers to travel, employment, investment, and trade prevented European companies from developing economic efficiencies. Now with these barriers removed, the economic power represented by the EU is considerable. Its current membership covers a population base of nearly half a billion people and accounts for approximately 31 percent of the world's total economic output.[12]

EXHIBIT 3-1
European Union Map

Another step toward full unification occurred when the common European currency, the **euro**, was adopted. The euro is currently in use in 16 of the 27 member states and all new member countries must adopt the euro. Only Denmark, the United Kingdom, and Sweden have been allowed to opt out of using the euro.[13] Another push in unification has been attempts to develop a unified European constitution. EU leaders struggled for nearly a decade to enact a treaty designed to strengthen the EU and give it a full-time president. The so-called Lisbon Treaty (or Reform Treaty) has one remaining hurdle—a signature from the president of the Czech Republic.[14] This treaty would provide EU with a common legal framework and the tools to meet the challenges of a changing world including climatic and demographic changes, globalization, security, and energy. And backers feel the new structure would help strengthen the EU's common foreign policy. Many believe that a more unified Europe could have more power and say in the global arena. As the former Italian prime minister and European Commission president said, "Europe has lost and lost and lost weight in the world."[15]

The last couple of years were difficult economically for the EU and its members, like it was for many global regions. "The traditional concept of 'solidarity' is being undermined by protectionist pressures in some member countries and the rigors of maintaining a common currency for a region that has diverse economic needs."[16] Some analysts believe that the EU is at a pivotal point. "They can spur growth across the region by following through on long-overdue pledges to trim benefits and free up labor markets. Or they can

polycentric attitude
The view that the managers in the host country know the best work approaches and practices for running their business

geocentric attitude
A world-oriented view that focuses on using the best approaches and people from around the globe

European Union (EU)
A union of 27 European nations created as a unified economic and trade entity

euro
A single common European currency

Since NAFTA went into effect in 1994, trade between Mexico and Canada has grown fivefold. Canadian-based aircraft maker Bombardier is boosting Mexico's aerospace industry by adding the country to its global manufacturing network. At a new plant built by Bombardier in Queretaro, Mexico, employees produce electrical harnesses (shown in this photo), fuselages, and flight controls for all Bombardier aircraft in production. The company also plans to build a new facility in Queretaro to make the composite structure for its new Learjet 85 business jet. The plants in Mexico help Bombardier reduce production costs and put the company closer to the growing demand for its aircraft in the Latin American markets.

face a decade of economic stagnation."[17] Another major issue faced by the 16 euro zone members—the massive debt crisis in Greece. But leaders bridged sharp philosophical divides and joined forces with the International Monetary Fund to forge an agreement to bail out Greece as its debt troubles intensified.[18]

The euro zone is the world's largest unified economy after the United States and a major source of world demand for goods and services. Therefore, the importance of this regional trading alliance will continue to evolve as EU members work together to assert the region's economic power with successful European businesses continuing to play a crucial role in the global economy.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) AND OTHER LATIN AMERICAN AGREEMENTS. When agreements in key issues covered by the **North American Free Trade Agreement (NAFTA)** were reached by the Mexican, Canadian, and U.S. governments in 1992, a vast economic bloc was created. As of 2010, it remains the largest trade bloc in the world in terms of combined GDP of its members.[19] Between 1994, when NAFTA went into effect, and 2007 (the most recent year for complete statistics), merchandise trade between the United States and Canada and Mexico increased from 4.4 percent to 6.6 percent.[20] Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) strengthened the economic power of all three countries, but not equally. Mexico, especially, has struggled to prosper from free trade. Although Mexico's exports increased dramatically under NAFTA (quintupling to $292 billion during 2008), large numbers of people still migrate to the United States in search of jobs and prosperity. The dream of a richer and more prosperous Mexico has not been realized.[21] And the recent worldwide recession has not helped the situation either. However, despite the criticisms and the challenges, the North American trading bloc remains a powerful force in today's global economy.

Other Latin American nations have become part of free trade blocs, as well. Colombia, Mexico, and Venezuela led the way when all three signed an economic pact in 1994 eliminating import duties and tariffs. Another agreement, the U.S.–Central America Free Trade Agreement (CAFTA), promotes trade liberalization between the United States and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. However, only El Salvador and Costa Rica have joined. The other countries have yet to change laws to be in line with the agreement.[22] The United States also signed a trade deal with Colombia that is said to be the "largest Washington has concluded with a Latin American country since signing" NAFTA.[23] Also, negotiators from 34 countries in the Western Hemisphere continue work on a Free Trade Area of the

Americas (FTAA) agreement, which was to have been operational no later than 2005, a missed targeted deadline. Leaders of these nations have yet to reach any agreement, leaving the future of the FTAA up in the air.[24] However, another free trade bloc of 10 South American countries known as the Southern Common Market or Mercosur already exists. Some South Americans see Mercosur as an effective way to combine resources to better compete against other global economic powers, especially the EU and NAFTA. With the future of FTAA highly doubtful, this regional alliance could take on new importance.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN). The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Southeast Asian nations. (See Exhibit 3-2.) The ASEAN region has a population over 591 million with a combined GDP of US$1.5 trillion.[25] In addition to these 10 nations, leaders from a group dubbed ASEAN+3, which include China, Japan, and South Korea, have met to discuss trade issues. Also, leaders from India, Australia, and New Zealand have participated in trade talks with ASEAN+3 as well. The main issue with creating a trade bloc of all 16 nations has been the lack of any push toward regional integration. Despite the Asian culture's emphasis on consensus building, "ASEAN's biggest problem is that individual members haven't been willing to sacrifice for the common good."[26] Although Southeast Asian leaders agree that closer regional integration would help economic growth, the large differences in wealth among ASEAN members have made it "difficult to create common standards because national standards remain so far apart."[27] However, the challenges brought on by the recent worldwide recession, which adversely affected many countries in this region, triggered greater interest in pushing for integration. In fact, on January 1, 2010, China and ASEAN launched an ambitious free trade agreement, making it the world's third largest trade bloc.[28] In addition to these free trade alliances, it's hoped that by 2015, an established ASEAN economic community will allow goods, skilled workers, and capital to move freely among member countries.

EXHIBIT 3-2

ASEAN Map

Source: Based on J. McClenahen and T. Clark, "ASEAN at Work," *IW*, May 19, 1997, p. 42.

North American Free Trade Agreement (NAFTA)
An agreement among the Mexican, Canadian, and U.S. governments in which barriers to trade have been eliminated

Association of Southeast Asian Nations (ASEAN)
A trading alliance of 10 Southeast Asian nations

Despite the barriers and challenges, progress toward regional integration continues. This fast-growing region means ASEAN and other Asian trade alliances will be increasingly important globally with an impact that eventually could rival that of both NAFTA and the EU.

OTHER TRADE ALLIANCES. Other regions around the world have developed regional trading alliances as well. For instance, the 53-nation African Union (AU), which came into existence in 2002, has the vision of "building an integrated, prosperous and peaceful Africa."[29] Members of this alliance have created an economic development plan to achieve greater unity among Africa's nations. Like members of other trade alliances, these countries hope to gain economic, social, cultural, and trade benefits from their association. Such cooperation couldn't be more important as Africa's economic output is booming like never before. GDP growth rates have been averaging 4.8 percent, the highest rate outside Asia, with most of that growth coming domestically. In addition, Africa has been experiencing a "virtually unprecedented period of political stability with governments steadily deregulating industries and developing infrastructure."[30]

Five east African nations—Burundi, Kenya, Rwanda, Tanzania, and Uganda—have formed a common market called the East African Community (EAC).[31] Under this agreement, goods can be sold across borders without tariffs. The next step for the EAC will be monetary union, although that will take time to implement.

Finally, the South Asian Association for Regional Cooperation (SAARC) composed of eight member states (India, Pakistan, Sri Lanka, Bangladesh, Bhutan, Nepal, the Maldives, and Afghanistan) began eliminating tariffs in 2006.[32] Its aim, like all the other regional trading alliances, is to allow free flow of goods and services.

The preceding discussion indicates that global trade is alive and well. Regional trade alliances continue to be developed in areas where member countries believe it's in their best interest economically and globally to band together and strengthen their economic position.

Global Trade Mechanisms

Global trade among nations doesn't just happen on its own. As trade issues arise, global trade systems ensure that trade continues efficiently and effectively. Indeed, one of the realities of globalization is the interdependence of countries—that is, what happens in one can impact others, good or bad. For example, the financial crisis that started in the United States in 2008 threw the global economy into a tailspin. Although things spiraled precariously out of control, it didn't completely collapse. Why? Because governmental interventions and trade and financial mechanisms helped avert a potential crisis. We're going to look at four important global trade mechanisms: the World Trade Organization, the International Monetary Fund, the World Bank Group, and the Organization for Economic Cooperation and Development.

WORLD TRADE ORGANIZATION. The **World Trade Organization (WTO)** is a global organization of 153 countries that deals with the rules of trade among nations.[33] Formed in 1995, the WTO evolved from the General Agreement on Tariffs and Trade (GATT), a trade agreement in effect since the end of World War II. Today, the WTO is the only *global* organization that deals with trade rules among nations. Its membership consists of 153 member countries and 30 observer governments (which have a specific time frame within which they must apply to become members). The goal of the WTO is to help countries conduct trade through a system of rules. Although critics have staged vocal protests against the WTO claiming that global trade destroys jobs and the natural environment, it appears to play an important role in monitoring, promoting, and protecting global trade. For instance, the WTO recently ruled that the European plane maker Airbus received improper European Union subsidies for the A380 super jumbo jet and several other airplanes, hurting its American rival, Boeing.[34] Airbus has the right to appeal the ruling, but even after appealing, any member ultimately found to have provided improper subsidies is obliged to bring its policies into compliance with global trade rules. Failure to comply could bring trade

sanctions. In another recent news story, the U.S. government is weighing whether to file a WTO complaint against China's Internet censorship.[35] In addition, the WTO played a pivotal role in keeping global trade active during the global economic crisis. WTO Director-General Pascal Lamy said, "During these difficult times, the multilateral trading system has once again proven its value. WTO rules and principles have assisted governments in keeping markets open and they now provide a platform from which trade can grow as the global economy improves."[36] These examples illustrate the types of trade issues with which the WTO deals. Such issues are best handled by an organization such as the WTO and it has played, without a doubt, an important role in promoting and protecting global trade.

INTERNATIONAL MONETARY FUND AND WORLD BANK GROUP. Two other important and necessary global trade mechanisms include the International Monetary Fund and the World Bank Group. The **International Monetary Fund (IMF)** is an organization of 185 countries that promotes international monetary cooperation and provides member countries with policy advice, temporary loans, and technical assistance to establish and maintain financial stability and to strengthen economies.[37] The **World Bank Group** is a group of five closely associated institutions, all owned by its member countries, that provides vital financial and technical assistance to developing countries around the world. The goal of the World Bank Group is to promote long-term economic development and poverty reduction by providing members with technical and financial support.[38] For instance, during the recent global recession, financial commitments by the World Bank Group reached $100 billion as it helped nations respond to and recover from the economic downturn.[39] Both entities have an important role in supporting and promoting global business.

ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD). The forerunner of the OECD, the Organization for European Economic Cooperation, was formed in 1947 to administer American and Canadian aid under the Marshall Plan for the reconstruction of Europe after World War II. Today, the **Organization for Economic Cooperation and Development (OECD)** is a Paris-based international economic organization whose mission is to help its 30 member countries achieve sustainable economic growth and employment and raise the standard of living in member countries while maintaining financial stability in order to contribute to the development of the world economy.[40] When needed, the OECD gets involved in negotiations with OECD countries so they can agree on "rules of the game" for international cooperation. One current focus is combating small-scale bribery in overseas commerce. The OECD says such "so-called facilitation payments are corrosive . . . particularly on sustainable economic development and the rule of law."[41] With a long history of facilitating economic growth around the globe, the OECD now shares its expertise and accumulated experiences with more than 70 developing and emerging market economies.

by the numbers[42]

93 percent of public middle and high schools in the United States offer Spanish; only 4 percent offer Chinese.

32 percent of college graduates surveyed saw themselves using a language other than their first language at work.

70 percent of Americans aged 18 to 24 have not traveled outside the United States in the last three years.

20 percent of U.S. homes house residents who speak a foreign language.

54 percent of business travelers said they're more successful in their career because of global business travel experience.

22 percent of U.S. workers say they "live to work" rather than "work to live".

16 percent of French workers say they "live to work".

Doing Business Globally

3.3 LEARNING OUTCOME

Describe the structures and techniques organizations use as they go international.

Daimler, Nissan Motor, and Renault are part of a strategic partnership that is sharing small-car technology and power trains—an arrangement that all three automakers say will allow them to better compete in an environment where cutting costs is crucial. Until he moved to Japan, Arturo Vega, a Spanish-language teacher, had no idea that the Sofyl brand of yogurt he always bought in his native Mexico was actually made by a Japanese company called Yakult Honsha. Reckitt Benckiser, the U.K.-based maker of consumer products (Lysol, Woolite, and French's mustard are just a few of its products), has operations in more than

World Trade Organization (WTO)
A global organization of 153 countries that deals with the rules of trade among nations

International Monetary Fund (IMF)
An organization of 185 countries that promotes international monetary cooperation and provides advice, loans, and technical assistance

World Bank Group
A group of five closely associated institutions that provides financial and technical assistance to developing countries

Organization for Economic Cooperation and Development (OECD)
An international economic organization that helps its 30 member countries achieve sustainable economic growth and employment

60 countries and its top 400 managers represent 53 different nationalities. The Missouri State Employees' Retirement System pays retirement benefits to recipients in 20 countries outside the United States.[43] As these examples show, organizations in different industries and from different countries do business globally. But *how* do they do so?

Different Types of International Organizations

Companies doing business globally aren't new. DuPont started doing business in China in 1863. H.J. Heinz Company was manufacturing food products in the United Kingdom in 1905. Ford Motor Company set up its first overseas sales branch in France in 1908. By the 1920s, other companies, including Fiat, Unilever, and Royal Dutch/Shell had gone international. But it wasn't until the mid-1960s that international companies became quite common. Today, few companies don't do business internationally. However, there's not a generally accepted approach to describe the different types of international companies; different authors call them different things. We use the terms *multinational, multidomestic, global,* and *transnational.*[44] A **multinational corporation (MNC)** is any type of international company that maintains operations in multiple countries.

One type of MNC is a **multidomestic corporation**, which decentralizes management and other decisions to the local country. This type of globalization reflects the polycentric attitude. A multidomestic corporation doesn't attempt to replicate its domestic successes by managing foreign operations from its home country. Instead, local employees typically are hired to manage the business and marketing strategies are tailored to that country's unique characteristics. For example, Switzerland-based Nestlé is a multidomestic corporation. With operations in almost every country on the globe, its managers match the company's products to its consumers. In parts of Europe, Nestlé sells products that are not available in the United States or Latin America. Another example is Frito-Lay, a division of PepsiCo, which markets a Dorito chip in the British market that differs in both taste and texture from the U.S. and Canadian version. Even the king of retailing, Walmart Stores, has learned that it must "think locally to act globally" as it tailors its inventories and store formats to local tastes.[45] Many consumer product companies organize their global businesses using this approach because they must adapt their products to meet the needs of local markets.

Another type of MNC is a **global company**, which centralizes its management and other decisions in the home country. This approach to globalization reflects the ethnocentric attitude. Global companies treat the world market as an integrated whole and focus on the need for global efficiency and cost savings. Although these companies may have considerable global holdings, management decisions with company-wide implications are made from headquarters in the home country. Some examples of global companies include Sony, Deutsche Bank AG, Starwood Hotels, and Merrill Lynch.

This baby in Ryazan, Russia, enjoys Nestlé's baby food that may not be available in other parts of the world. That's because Nestlé believes that "food is a local matter." As a multidomestic corporation, Nestlé spans the globe in marketing more than 10,000 products in 130 countries. The company adapts its products to local cultures, tastes, traditions, and consumer needs. Wherever possible, Nestlé produces its products locally and uses local raw materials and components. Even though some Nestlé brands are global, others are marketed in specific geographic areas, such as the Middle East, and many are local to a country or to an area within a country.

Other companies use an arrangement that eliminates artificial geographical barriers. This type of MNC is often called a **transnational, or borderless, organization** and reflects a geocentric attitude.[46] For example, IBM dropped its organizational structure based on country and reorganized into industry groups. Ford Motor Company is pursuing what it calls the One Ford concept as it integrates its operations around the world. Another company, Thomson SA, which is legally based in France, has eight major locations around the globe. The CEO said, "We don't want people to think we're based anyplace."[47] Managers choose this approach to increase efficiency and effectiveness in a competitive global marketplace.[48]

How Organizations Go International

When organizations do go international, they often use different approaches. (See Exhibit 3-3.) Managers who want to get into a global market with minimal investment may start with **global sourcing** (also called global outsourcing), which is purchasing materials or labor from around the world wherever it is cheapest. The goal: take advantage of lower costs

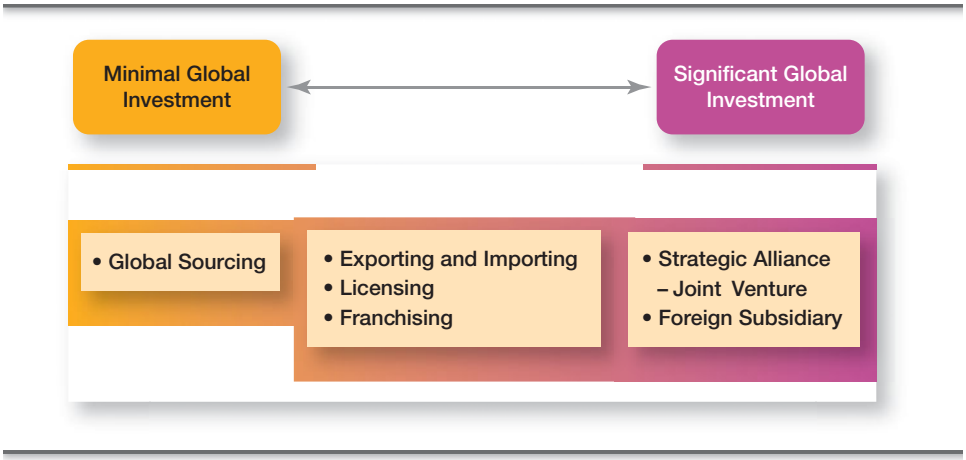


EXHIBIT 3-3
How Organizations Go Global

in order to be more competitive. For instance, Massachusetts General Hospital uses radiologists in India to interpret CT scans.[49] Although global sourcing may be the first step to going international for many companies, they often continue to use this approach because of the competitive advantages it offers. Each successive stage of going international beyond global sourcing, however, requires more investment and thus entails more risk for the organization.

The next step in going international may involve **exporting** the organization's products to other countries—that is, making products domestically and selling them abroad. In addition, an organization might do **importing**, which involves acquiring products made abroad and selling them domestically. Both usually entail minimal investment and risk, which is why many small businesses often use these approaches to doing business globally.

Managers also might use **licensing** or **franchising**, which are similar approaches involving one organization giving another organization the right to use its brand name, technology, or product specifications in return for a lump sum payment or a fee usually based on sales. The only difference is that licensing is primarily used by manufacturing organizations that make or sell another company's products and franchising is primarily used by service organizations that want to use another company's name and operating methods. For example, Chicago consumers can enjoy Guatemalan Pollo Campero fried chicken, South Koreans can indulge in Dunkin' Brands' coffee, Hong Kong residents can dine on Shakey's Pizza, and Malaysians can consume Schlotzky's deli sandwiches—all because of *franchises* in these countries. On the other hand, Anheuser-Busch InBev has *licensed* the right to brew and market its Budweiser beer to brewers such as Kirin in Japan and Crown Beers in India.

When an organization has been doing business internationally for a while and has gained experience in international markets, managers may decide to make more of a direct foreign investment. One way to increase investment is through a **strategic alliance**, which is a partnership between an organization and a foreign company partner or partners in which both share resources and knowledge in developing new products or building production facilities. For example, Honda Motor and General Electric teamed up to produce a new jet

multinational corporation (MNC)
A broad term that refers to any and all types of international companies that maintain operations in multiple countries

multidomestic corporation
An MNC that decentralizes management and other decisions to the local country

global company
An MNC that centralizes management and other decisions in the home country

transnational or borderless organization
An MNC in which artificial geographical barriers are eliminated

global sourcing
Purchasing materials or labor from around the world wherever it is cheapest

exporting
Making products domestically and selling them abroad

importing
Acquiring products made abroad and selling them domestically

licensing
An organization gives another organization the right to make or sell its products using its technology or product specifications

franchising
An organization gives another organization the right to use its name and operating methods

strategic alliance
A partnership between an organization and a foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities

engine. A specific type of strategic alliance in which the partners form a separate, independent organization for some business purpose is called a **joint venture**. For example, Hewlett-Packard has had numerous joint ventures with various suppliers around the globe to develop different components for its computer equipment. These partnerships provide a relatively easy way for companies to compete globally.

Finally, managers may choose to directly invest in a foreign country by setting up a **foreign subsidiary** as a separate and independent facility or office. This subsidiary can be managed as a multidomestic organization (local control) or as a global organization (centralized control). As you can probably guess, this arrangement involves the greatest commitment of resources and poses the greatest amount of risk. For instance, United Plastics Group of Westmont, Illinois, built two injection-molding facilities in Suzhou, China. The company's executive vice president for business development said that level of investment was necessary because "it fulfilled our mission of being a global supplier to our global accounts."[50]

LEARNING OUTCOME 3.4

Explain the relevance of the political/legal, economic, and cultural environments to global business.

Managing in a Global Environment

Assume for a moment that you're a manager going to work for a branch of a global organization in a foreign country. You know that your environment will differ from the one at home, but how? What should you look for?

Any manager who finds himself or herself in a new country faces challenges. In this section, we'll look at some of these challenges. Although our discussion is presented through the eyes of a U.S. manager, this framework could be used by any manager regardless of national origin who manages in a foreign environment.

The Political/Legal Environment

U.S. managers are accustomed to a stable legal and political system. Changes tend to be slow, and legal and political procedures are well established. Elections are held at regular intervals, and even when the political party in power changes after an election, it's unlikely that anything too radical will happen. The stability of laws allows for accurate predictions. However, this certainly isn't true for all countries. Managers must stay informed of the specific laws in countries where they do business. For instance, the president of Zimbabwe is pushing ahead with plans to force foreign companies to sell majority stakes to locals.[51] Such a law would be a major barrier to foreign business investment. In China, foreign businesses are finding a less-than-welcoming climate as government policies are making it more difficult to do business there.[52] And Swedish retailer Ikea has halted further investment in Russia because of continual governmental red tape delays. Per Kaufmann, Ikea's Russia country manager, said the decision was "due to the unpredictability of the administrative processes in some regions."[53]

Also, some countries have risky political climates. Chicago-based Aon Corporation does an annual political risk assessment, and its 2010 report found that businesses faced the highest level of risk in Afghanistan, Congo DRC, Iran, Iraq, North Korea, Somalia, Sudan, Venezuela, Yemen, and Zimbabwe. Company analysts said that political and financial instability remained a feature of the business landscape as a result of the global recession. They also said that "2010 will see elevated political risk levels continue before an overall tendency for improving global business conditions becomes established."[54] Managers of businesses in countries with higher risk levels face dramatically greater uncertainty. In addition, political interference is a fact of life in some regions, especially in some Asian countries such as China.[55]

Keep in mind that a country's political/legal environment doesn't have to be risky or unstable to be a concern to managers. Just the fact that it differs from that of the home country (United States or other) is important. Managers must recognize these differences if they hope to understand the constraints and opportunities that exist.

Let's Get Real

F2F

My advice for someone who has little global experience is *research all aspects of that country's culture and find a liaison native to the culture to take as a partner to gain the needed perspective.*

The Economic Environment

Strange as it may sound, 17,000 tons of Parmesan cheese, with an estimated value of $187 million, are being held in the vaults of the Italian bank Credito Emiliano. The cheese is collateral from Italian cheese makers struggling through the recession.[56] Such an example

of an economic factor of business may seem peculiar for those of us in the United States, but it's not all that unusual for Italian businesses.

A global manager must be aware of economic issues when doing business in other countries. First, it's important to understand a country's type of economic system. The two major types are a free market economy and a planned economy. A **free market economy** is one in which resources are primarily owned and controlled by the private sector. A **planned economy** is one in which economic decisions are planned by a central government. Actually, no economy is purely free market or planned. For instance, the United States and United Kingdom are toward the free market end of the spectrum but do have governmental intervention and controls. The economies of Vietnam and North Korea are more planned. China is also a more planned economy, but until recently had been moving toward being more free market. Why would managers need to know about a country's economic system? Because it, too, has the potential to constrain decisions. Other economic issues managers need to understand include currency exchange rates, inflation rates, and diverse tax policies.

An MNC's profits can vary dramatically depending on the strength of its home currency and the currencies of the countries in which it operates. For instance, prior to the overall global economic slowdown, the rising value of the euro against both the dollar and the yen had contributed to strong profits for German companies.[57] Any currency exchange revaluations can affect managers' decisions and the level of a company's profits.

Inflation means that prices for products and services are increasing. But it also affects interest rates, exchange rates, the cost of living, and the general confidence in a country's political and economic system. Country inflation rates can, and do, vary widely. The *World Factbook* shows rates ranging from a negative 3.9 percent in Qatar to a positive 34 percent in the Seychelles.[58] Managers need to monitor inflation trends so they can anticipate possible changes in a country's monetary policies and make good business decisions regarding purchasing and pricing.

Finally, tax policies can be a major economic worry. Some countries' tax laws are more restrictive than those in an MNC's home country. Others are more lenient. About the only certainty is that they differ from country to country. Managers need accurate information on tax rules in countries in which they operate to minimize their business's overall tax obligation.

The Cultural Environment

Managing today's talented global workforce can be a challenge![59] A large multinational oil company found that employee productivity in one of its Mexican plants was off 20 percent and sent a U.S. manager to find out why. After talking to several employees, the manager discovered that the company used to have a monthly fiesta in the parking lot for all the employees and their families. Another U.S. manager had canceled the fiestas saying they were a waste of time and money. The message employees were getting was that the company didn't care about their families anymore. When the fiestas were reinstated, productivity and employee morale soared. At Hewlett-Packard, a cross-global team of U.S. and French engineers were assigned to work together on a software project. The U.S. engineers sent long, detailed e-mails to their counterparts in France. The French engineers viewed the lengthy e-mails as patronizing and replied with quick, concise e-mails. This made the U.S. engineers think that the French were hiding something from them. The situation spiraled out of control and negatively affected output until team members went through cultural training.[60]

joint venture
A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose

foreign subsidiary
Directly investing in a foreign country by setting up a separate and independent production facility or office

free market economy
An economic system in which resources are primarily owned and controlled by the private sector

planned economy
An economic system in which economic decisions are planned by a central government

As we know from Chapter 2, organizations have different cultures. Countries have cultures too. **National culture** includes the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.[61]

Which is more important to a manager—national culture or organizational culture? For example, is an IBM facility in Germany more likely to reflect German culture or IBM's corporate culture? Research indicates that national culture has a greater effect on employees than does their organization's culture.[62] German employees at an IBM facility in Munich will be influenced more by German culture than by IBM's culture.

Legal, political, and economic differences among countries are fairly obvious. The Japanese manager who works in the United States or his or her American counterpart who works in Japan can get information about laws or tax policies without too much effort. Getting information about cultural differences isn't quite that easy! The primary reason? It's difficult for natives to explain their country's unique cultural characteristics to someone else. For instance, if you were born and raised in the United States, how would you describe U.S. culture? In other words, what are Americans like? Think about it for a moment and see which characteristics in Exhibit 3-4 you identified.

HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURES. Geert Hofstede developed one of the most widely referenced approaches to helping managers better understand differences between national cultures. His research found that countries vary on five dimensions of national culture. These dimensions are described in Exhibit 3-5, which also shows some of the countries characterized by those dimensions.

THE GLOBE FRAMEWORK FOR ASSESSING CULTURES. The **Global Leadership and Organizational Behavior Effectiveness (GLOBE)** research program extended Hofstede's work by investigating cross-cultural leadership behaviors and gives managers additional information to help them identify and manage cultural differences. Using data from more than 18,000 managers in 62 countries, the GLOBE research team (led by Robert House) identified nine dimensions on which national cultures

EXHIBIT 3-4

What Are Americans Like?

- Americans are *very informal.* They tend to treat people alike even when great differences in age or social standing are evident.
- Americans are *direct.* They don't talk around things. To some foreigners, this may appear as abrupt or even rude behavior.
- Americans are *competitive.* Some foreigners may find Americans assertive or overbearing.
- Americans are *achievers.* They like to keep score, whether at work or at play. They emphasize accomplishments.
- Americans are *independent and individualistic.* They place a high value on freedom and believe that individuals can shape and control their own destiny.
- Americans are *questioners.* They ask a lot of questions, even of someone they have just met. Many may seem pointless ("How ya' doin'?") or personal ("What kind of work do you do?").
- Americans *dislike silence.* They would rather talk about the weather than deal with silence in a conversation.
- Americans *value punctuality.* They keep appointment calendars and live according to schedules and clocks.
- Americans *value cleanliness.* They often seem obsessed with bathing, eliminating body odors, and wearing clean clothes.

Sources: Based on M. Ernest (ed.), *Predeparture Orientation Handbook: For Foreign Students and Scholars Planning to Study in the United States* (Washington, DC: U.S. Information Agency, Bureau of Cultural Affairs, 1984), pp. 103–105; A. Bennett, "American Culture Is Often a Puzzle for Foreign Managers in the U.S.," *Wall Street Journal*, February 12, 1986, p. 29; "Don't Think Our Way's the Only Way," *The Pryor Report*, February 1988, p. 9; and B. J. Wattenberg, "The Attitudes Behind American Exceptionalism," *U.S. News & World Report*, August 7, 1989, p. 25.

EXHIBIT 3-5
Hofstede's Five Dimensions of National Culture

1. ***Individualistic***—People look after their own and family interests
   Collectivistic—People expect the group to look after and protect them

   Individualistic ⟷ *Collectivistic*

   United States, Canada, Australia — Japan — Mexico, Thailand

2. ***High power distance***—Accepts wide differences in power; great deal of respect for those in authority
   Low power distance—Plays down inequalities: employees are not afraid to approach nor are in awe of the boss

   High power distance ⟷ *Low power distance*

   Mexico, Singapore, France — Italy, Japan — United States, Sweden

3. ***High uncertainty avoidance***—Threatened with ambiguity and experience high levels of anxiety
   Low uncertainty avoidance—Comfortable with risks; tolerant of different behavior and opinions

   High uncertainty avoidance ⟷ *Low uncertainty avoidance*

   Italy, Mexico, France — United Kingdom — Canada, United States, Singapore

4. ***Achievement***—Values such as assertiveness, acquiring money and goods, and competition prevail
   Nurturing—Values such as relationships and concern for others prevail

   Achievement ⟷ *Nurturing*

   United States, Japan, Mexico — Canada, Greece — France, Sweden

5. ***Long-term orientation***—People look to the future and value thrift and persistence
   Short-term orientation—People value tradition and the past

   Short-term orientation ⟷ *Long-term orientation*

   Germany, Australia, United States, Canada — China, Taiwan, Japan

differ.[63] Two dimensions (power distance and uncertainty avoidance) fit directly with Hofstede's. Four are similar to Hofstede's (assertiveness, which is similar to achievement-nurturing; humane orientation, which is similar to the nurturing dimension; future orientation, which is similar to long-term and short-term orientation; and institutional collectivism, which is similar to individualism-collectivism). The remaining three (gender differentiation, in-group collectivism, and performance orientation) offer additional insights into a country's culture. Here are descriptions of these nine dimensions:

- **Power distance:** the degree to which members of a society expect power to be unequally shared.
- **Uncertainty avoidance:** a society's reliance on social norms and procedures to alleviate the unpredictability of future events.
- **Assertiveness:** the extent to which a society encourages people to be tough, confrontational, assertive, and competitive rather than modest and tender.
- **Humane orientation:** the degree to which a society encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others.
- **Future orientation:** the extent to which a society encourages and rewards future-oriented behaviors such as planning, investing in the future, and delaying gratification.

national culture
The values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important

Global Leadership and Organizational Behavior Effectiveness (GLOBE) program
The research program that studies cross-cultural leadership behaviors

- **Institutional collectivism:** the degree to which individuals are encouraged by societal institutions to be integrated into groups within organizations and society.
- **Gender differentiation:** the extent to which a society maximizes gender role differences as measured by how much status and decision-making responsibilities women have.
- **In-group collectivism:** the extent to which members of a society take pride in membership in small groups, such as their family and circle of close friends, and the organizations in which they're employed.
- **Performance orientation:** the degree to which a society encourages and rewards group members for performance improvement and excellence.

Exhibit 3-6 provides information on how different countries rank on these nine dimensions.

Global Management in Today's World

Doing business globally today isn't easy! As we look at managing in today's global environment, we want to focus on two important aspects. The first aspect involves the challenges associated with globalization, especially in relation to the openness that's part of being global. The second aspect revolves around the challenges of managing a global workforce.

THE CHALLENGE OF OPENNESS. The push to go global has been widespread. Advocates praise the economic and social benefits that come from globalization, but globalization also creates challenges because of the openness that's necessary for it to

EXHIBIT 3-6
GLOBE Highlights

Dimension	Countries Rating Low	Countries Rating Moderate	Countries Rating High
Assertiveness	Sweden New Zealand Switzerland	Egypt Ireland Philippines	Spain United States Greece
Future orientation	Russia Argentina Poland	Slovenia Egypt Ireland	Denmark Canada Netherlands
Gender differentiation	Sweden Denmark Slovenia	Italy Brazil Argentina	South Korea Egypt Morocco
Uncertainty avoidance	Russia Hungary Bolivia	Israel United States Mexico	Austria Denmark Germany
Power distance	Denmark Netherlands South Africa	England France Brazil	Russia Spain Thailand
Individualism/collectivism*	Denmark Singapore Japan	Hong Kong United States Egypt	Greece Hungary Germany
In-group collectivism	Denmark Sweden New Zealand	Japan Israel Qatar	Egypt China Morocco
Performance orientation	Russia Argentina Greece	Sweden Israel Spain	United States Taiwan New Zealand
Humane orientation	Germany Spain France	Hong Kong Sweden Taiwan	Indonesia Egypt Malaysia

*A low score is synonymous with collectivism.

Source: M. Javidan and R. J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," *Organizational Dynamics*, Spring 2001, pp. 289–305. Copyright © 2001. Reprinted with permission from Elsevier.

work. One challenge is the increased threat of terrorism by a truly global terror network. Globalization is meant to open up trade and to break down the geographical barriers separating countries. Yet, opening up means just that—being open to the bad as well as the good. From the Philippines and the United Kingdom to Israel and Pakistan, organizations and employees face the risk of terrorist attacks. Another challenge from openness is the economic interdependence of trading countries. As we saw over the last couple of years, the faltering of one country's economy can have a domino effect on other countries with which it does business. So far, however, the world economy has proved to be quite resilient. And as we discussed earlier, structures that are currently in place, such as the World Trade Organization and the International Monetary Fund, help to isolate and address potential problems.

The far more serious challenge for managers in the openness required by globalization comes from intense underlying and fundamental cultural differences—differences that encompass traditions, history, religious beliefs, and deep-seated values. Managing in such an environment can be extremely complicated. Even though globalization has long been praised for its economic benefits, some individuals think that globalization is simply a euphemism for "Americanization"—that is, the way U.S. cultural values and U.S. business philosophy are said to be slowly taking over the world.[64] At its best, proponents of Americanization hope others will see how progressive, efficient, industrious, and free U.S. society and businesses are and want to emulate that way of doing things. However, critics claim that this attitude of the "almighty American dollar wanting to spread the American way to every single country," has created many problems.[65] Although history is filled with clashes between civilizations, what's unique now is the speed and ease with which misunderstandings and disagreements can erupt and escalate. The Internet, television and other media, and global air travel have brought the good and the bad of American entertainment, products, and behaviors to every corner of the globe. For those who don't like what Americans do, say, or believe, this exposure can lead to resentment, dislike, distrust, and even outright hatred.

CHALLENGES OF MANAGING A GLOBAL WORKFORCE.

- "As more Americans go to mainland China to take jobs, more Chinese and Americans are working side by side. These cross-cultural partnerships, while beneficial in many ways, are also highlighting tensions that expose differences in work experience, pay levels, and communication."[66]
- Global companies with multicultural work teams are faced with the challenge of managing the cultural differences in work-family relationships. The work-family practices and programs that are appropriate and effective for employees in one country may not be the best solution for employees in other locations.[67]

These examples indicate challenges that are associated with managing a global workforce. As globalization continues to be important for businesses, it's obvious that managers need to understand how to best manage that global workforce. Some researchers have suggested that managers need **cultural intelligence** or cultural awareness and sensitivity skills.[68] Cultural intelligence encompasses three main dimensions: (1) knowledge of culture as a concept—how cultures vary and how they affect behavior; (2) mindfulness—the ability to pay attention to signals and reactions in different cross-cultural situations; and (3) behavioral skills—using one's knowledge and mindfulness to choose appropriate behaviors in those situations.

Other researchers have said that what effective global leaders need is a **global mind-set**, attributes that allow a leader to be effective in cross-cultural environments.[69] Those attributes have three components as shown in Exhibit 3-7.

cultural intelligence
Cultural awareness and sensitivity skills

global mind-set
Attributes that allow a leader to be effective in cross-cultural environments

EXHIBIT 3-7
A Global Mind-Set

Intellectual capital:	Knowledge of international business and the capacity to understand how business works on a global scale	
Psychological capital:	Openness to new ideas and experiences	
Social capital:	Ability to form connections and build trusting relationships with people who are different from you	

Source: Based on M. Javidan, M. Teagarden, and D. Bowen, "Making It Overseas," *Harvard Business Review,* April 2010, pp. 109–113; and J. McGregor (ed.), "Testing Managers' Global IQ," *Bloomberg BusinessWeek,* September 28, 2009, p. 68.

Leaders who possess such cross-cultural skills and abilities—whether cultural intelligence or a global mind-set—will be important assets to global organizations. Successfully managing in today's global environment will require incredible sensitivity and understanding. Managers from any country will need to be aware of how their decisions and actions will be viewed, not only by those who may agree, but more importantly, by those who may disagree. They will need to adjust their leadership styles and management approaches to accommodate these diverse views, and at the same time be as efficient and effective as possible in reaching the organization's goals.

Let's Get Real:

My Response *to A Manager's Dilemma, page 70*

All aspects of a country's culture should be researched to understand the dynamics of the culture and their traditions. Some aspects that should be thoroughly understood are:

- Understand the length of a normal workday and local laws surrounding overtime pay and maximum allowable hours in a workweek.
- What transit challenges employees may face and what flexibility may be provided to accommodate mass transit schedules or work shifts that may be set off-cycle from peak traffic times.
- What accommodations employees may prefer such as small kitchens, locker rooms, or prayer space.
- What a competitive benefits package may look like, including health benefits and access to doctors for employees and their families.

These points are important in attracting a qualified workforce, but an understanding of how to reward and motivate employees in a different culture is imperative for retention of your trained workforce.

Understand what types of recognition would be of value and who it should come from. Is recognition between a boss and employee privately or in front of a peer group most valued? What types of awards are most valued: plaques, paid time off or awards of monetary value? How do you make the most of the innovation of your employees? How does the culture affect the chain of command? What is the appropriate way to surface new ideas that may challenge a current process? Provide the appropriate vehicle dictated by the culture to ensure all ideas can be brought forth. Your employees will possess the ideas needed to move your business forward and to implement the changes needed to retain your staff. Be sure not to miss the opportunity to maximize this most valued resource!!

What Would You Do?

Cheryl Trewatha
Sr. Group Manager
Quality Assurance
Target Corp.
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CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 3.1

Contrast ethnocentric, polycentric, and geocentric attitudes toward global business.

Parochialism is viewing the world solely through your own eyes and perspectives and not recognizing that others have different ways of living and working. An ethnocentric attitude is the parochialistic belief that the best work approaches and practices are those of the home country. A polycentric attitude is the view that the managers in the host country know the best work approaches and practices for running their business. And a geocentric attitude is a world-oriented view that focuses on using the best approaches and people from around the globe.

LEARNING OUTCOME 3.2

Discuss the importance of regional trading alliances and global trade mechanisms.

The European Union consists of 27 democratic countries with three countries having applied for membership. Sixteen countries have adopted the euro and all new member countries must adopt it. NAFTA continues to help Canada, Mexico, and the United States strengthen their global economic power. The U.S.–CAFTA alliance is still trying to get off the ground as is the proposed FTAA. Because of the delays for CAFTA and FTAA, Mercosur (Southern Common Market) will likely take on new importance. ASEAN is a trading alliance of ten Southeast Asian nations, a region that remains important in the global economy. The African Union and SAARC are relatively new but will continue to see benefits from their alliances. To counteract some of the risks in global trade, the World Trade Organization (WTO) plays an important role in monitoring and promoting trade relationships. The International Monetary Fund (IMF) and the World Bank Group are two entities that provide monetary support and advice to their member countries. The Organization for Economic Cooperation and Development assists its member countries with financial support in achieving sustainable economic growth and employment.

LEARNING OUTCOME 3.3

Describe the structures and techniques organizations use as they go international.

A multinational corporation is an international company that maintains operations in multiple countries. A multidomestic organization is an MNC that decentralizes management and other decisions to the local country (the polycentric attitude). A global organization is an MNC that centralizes management and other decisions in the home country (the ethnocentric attitude). A transnational organization (the geocentric attitude) is an MNC that has eliminated artificial geographical barriers and uses the best work practices and approaches from wherever. Global sourcing is purchasing materials or labor from around the world wherever it is cheapest. Exporting is making products domestically and selling them abroad. Importing is acquiring products made abroad and selling them domestically. Licensing is used by manufacturing organizations that make or sell another company's products and gives that organization the right to use the company's brand name, technology, or product specifications. Franchising is similar but is usually used by service organizations that want to use another company's name and operating methods. A global strategic alliance is a partnership between an organization and foreign company partners in which they share resources and knowledge to develop new products or build facilities. A joint venture is a specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose. A foreign subsidiary is a direct investment in a foreign country that a company creates by establishing a separate and independent facility or office.

Explain the relevance of the political/legal, economic, and cultural environments to global business.

LEARNING OUTCOME 3.4

The laws and political stability of a country are issues in the global political/legal environment with which managers must be familiar. Likewise, managers must be aware of a country's economic issues such as currency exchange rates, inflation rates, and tax policies. Geert Hofstede identified five dimensions for assessing a country's culture including individualism-collectivism, power distance, uncertainty avoidance, achievement-nurturing, and long-term/short-term orientation. The GLOBE studies identified nine dimensions for assessing country cultures: power distance, uncertainty avoidance, assertiveness, humane orientation, future orientation, institutional collectivism, gender differentiation, in-group collectivism, and performance orientation. The main challenges of doing business globally in today's world include (1) the openness associated with globalization and the significant cultural differences between countries; and (2) managing a global workforce, which requires cultural intelligence and a global mind-set.

To check your understanding of learning outcomes 3.1 – 3.4 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Contrast ethnocentric, polycentric, and geocentric attitudes toward global business.
2. Describe the current status of each of the various regional trading alliances.
3. Contrast multinational, multidomestic, global, and transnational organizations.
4. What are the managerial implications of a borderless organization?
5. Describe the different ways organizations can go international.
6. Explain how the global political/legal and economic environments affect managers of global organizations.
7. Can the GLOBE framework presented in this chapter be used to guide managers in a Thai hospital or a government agency in Venezuela? Explain.
8. What challenges might confront a Mexican manager transferred to the United States to manage a manufacturing plant in Tucson, Arizona? Will these issues be the same for a U.S. manager transferred to Guadalajara? Explain.
9. How might the cultural differences in the GLOBE dimensions affect how managers (a) use work groups, (b) develop goals/plans, (c) reward outstanding employee performance, and (d) deal with employee conflict?
10. Is globalization good for business? For consumers? Discuss.

PREPARING FOR: My Career

ETHICS DILEMMA

The "joke" has always been that IBM—the world's top provider of computer products and services—stood for "I've Been Moved" instead of an abbreviation for its corporate name, International Business Machines.[70] That's because employees on their way up in the company would have to be ready at any time to move where the company wanted them to go. Now, however, that "joke" may not be so funny. A new employee relocation strategy has been raising some eyebrows, especially when thousands of U.S. employees have been laid off. The plan gives the company's U.S. employees the opportunity to move their jobs to emerging market

countries, and in turn, the company would foot some of the relocation costs. IBM's U.S. employment fell 5 percent, while emerging market employment rose 15 percent, particularly in high growth markets such as India, China, Brazil, and Russia. What do you think? Why might the company have developed this new program? Does this seem "right" to you? What ethical issues does this strategy raise?

SKILLS EXERCISE

Developing Your Collaboration Skill

About the Skill

Collaboration is the teamwork, synergy, and cooperation used by individuals when they seek a common goal. In many cross-cultural settings, the ability to collaborate is crucial. When all partners must work together to achieve goals, collaboration is critically important to the process.

Steps in Practicing the Skill

1. *Look for common points of interest.* The best way to start working together in a collaborative fashion is to seek commonalities that exist among the parties. Common points of interest enable communications to be more effective.
2. *Listen to others.* Collaboration is a team effort. Everyone has valid points to offer, and each individual should have an opportunity to express his or her ideas.
3. *Check for understanding.* Make sure you understand what the other person is saying. Use feedback when necessary.
4. *Accept diversity.* Not everything in a collaborative effort will "go your way." Be willing to accept different ideas and different ways of doing things. Be open to these ideas and the creativity that surrounds them.
5. *Seek additional information.* Ask individuals to provide additional information. Encourage others to talk and more fully explain suggestions. This brainstorming opportunity can assist in finding creative solutions.
6. *Don't become defensive.* Collaboration requires open communications. Discussions may focus on things you and others may not be doing or need to do better. Don't take the constructive feedback as personal criticism. Focus on the topic being discussed, not on the person delivering the message. Recognize that you cannot always be right!

Practicing the Skill

Interview managers from three different organizations about how they collaborate with others. What specific tips have they discovered for effectively collaborating with others? What problems have they encountered when collaborating? How have they dealt with these problems?

WORKING TOGETHER

Team Exercise

Moving to a foreign country isn't easy, no matter how many times you've done it or how receptive you are to new experiences. Successful global organizations are able to identify the best candidates for global assignments, and one of the ways they do this is through individual assessments prior to assigning people to global facilities. Form groups of three to five individuals. Your newly formed team, the Global Assignment Task Force, has been given the responsibility for developing a global aptitude assessment form for Yum Brands (the company described in the chapter-opening Manager's Dilemma). Because Yum is expanding its global operations significantly, it wants to make sure that it's sending the best possible people to the various global locations. Your team's assignment is to come up with a rough draft of a form to assess people's global aptitude. Think about the characteristics, skills, attitudes, etc. that you think a successful global employee would need. Your team's draft should be at least one-half page but not longer than one page. Be prepared to present your ideas to your classmates and professor.

MY TURN TO BE A MANAGER

- Find two current examples of each of the ways that organizations go international. Write a short paper describing what these companies are doing.
- The U.K.-based company, Kwintessential, has several cultural knowledge "quizzes" on its Web site [http://www.kwintessential.co.uk/resources/culture-tests.html]. Go to the Web site and try two or three of them. Were you surprised at your score? What does your score tell you about your cultural awareness?
- On this Web site, you'll also find Country Etiquette Guides. Pick two countries to study (from different regions) and compare them. How are they the same? Different? How would this information help a manager?

- Interview two or three professors or students at your school who are from other countries. Ask them to describe what the business world is like in their country. Write a short paper describing what you found out.
- Take advantage of opportunities that you might have to travel to other countries, either on personal trips or on school-sponsored trips.
- Create a timeline illustrating the history of the European Union and a timeline illustrating the history of NAFTA.
- Suppose that you were being sent on an overseas assignment to another country (you decide which one). Research that country's economic, political/legal, and cultural environments. Write a report summarizing your findings.
- If you don't have your passport yet, go through the process to get one. (The current fee in the United States is $135.)
- Steve's and Mary's suggested readings: H. L. Sirkin, J. W. Hermerling, and A. K. Bhattacharya, *Globality: Competing with Everyone from Everywhere for Everything* (Boston Consulting Group, Inc., 2008); J. Zogby, *The Way We'll Be* (Random House, 2008); Nancy J. Adler, *International Dimensions of Organizational Behavior,* 5th ed. (South-Western Publishing, 2008); Kenichi Ohmae, *The Next Global Stage* (Wharton School Publishing, 2005); John Hooker, *Working Across Cultures* (Stanford Business Books, 2003); and Thomas L. Friedman, *The Lexus and the Olive Tree* (Anchor Books, 2000).
- If you want to better prepare yourself for working in an international setting, take additional classes in international management and international business.
- You've been put in charge of designing a program to prepare your company's managers to go on an overseas assignment. What should (and would) this program include? Be specific. Be thorough. Be creative.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: Am I Well-Suited for a Career as a Global Manager? and What Are My Attitudes Toward Workplace Diversity? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Held Hostage

Nicholas Polutnik, director of Caterpillar's plant near Grenoble, France, sits at his desk while held captive as a hostage by striking employees who protested planned layoffs until management agreed to negotiate with the union over compensation of laid-off workers.

Hostage and *manager.*[71] These are two words that you would not usually expect to hear spoken in the same breath. However, during the first few months of 2009, workers at manufacturing facilities of 3M Company, Sony Corporation, and Caterpillar Inc. in France took managers hostage. Why? To negotiate better severance packages and benefits for laid-off employees.

French workers have long been known for their aggressive and radical responses to what they feel is wrong or oppressive treatment. Says one French executive, "Protest is inscribed in the genes of French culture. In the past, peasants protested against their lords. Today the difference is that the lords are chief executives." Protesting French workers have been known to burn piles of tires in city streets or tie up traffic with caravans of farm tractors. In one instance, striking truckers blockaded roads and highways to highlight their campaign for zretirement at age 55. The labor blockade worked, as the French government relented when food supplies started to run out. And the tactic of taking the boss hostage has been used previously, as well. For instance, in

1997, workers at the state-run mortgage bank Credit Foncier de France took their boss hostage for five days to try and prevent the bank's closing even though it had been losing money. Although kidnapping your boss isn't legal, a French sociologist who surveyed 3,000 companies found that 18 of them had experienced an "executive detention" in the prior three years.

These actions by workers, which have been peaceful and more of a symbolic protest, were in response to the economic downturn. Although France wasn't in any worse shape than other big industrialized economies, the country's "strong tradition of egalitarianism triggers strong reactions when people think they are being mistreated or when better-off people appear to flaunt their wealth at a time of general hardship." At Caterpillar's French facility near Grenoble, unhappy workers first went on strike for a day. The next day, they detained the plant director and four other managers for about 24 hours. The managers were released only after the company agreed to resume talks with unions and a government mediator on "how to improve compensation for workers being laid off." The incident at Caterpillar followed others at Sony and 3M, where managers also were held captive by workers angry over being laid off. Although all of the hostage-taking incidents were resolved peacefully, some analysts wonder if more violent actions may be in store, especially if workers feel they have nothing to lose.

Discussion Questions

1. What's your reaction to these events? Do you think your reaction is influenced by the culture, values, and traditions of the country in which you find yourself? Explain.
2. Look at what Hofstede's and the GLOBE findings say about France. How would you explain these workers' actions given these findings?
3. We've said that it's important for managers to be aware of external environmental forces, especially in global settings. Discuss this statement in light of the events described.
4. What might the French managers have done differently leading up to the point at which workers felt they needed to take their managers hostage in order to be heard? Explain.
5. Do you think something like this could happen in the United States? Why or why not?

CASE APPLICATION 2

Global Stumble

It's not always easy to do business globally, as executives at Japanese brokerage firm Nomura Holdings Inc. are discovering.[72] Nomura acquired Lehman's international operations in late 2008 after Lehman's parent company sought Chapter 11 bankruptcy protection, an action that added about 8,000 non-Japanese workers. For Nomura, the time seemed right to strengthen its global expansion strategy. However, since the acquisition, cultural and business differences between the two organizations have been a major stumbling block. Although blending two diverse cultures requires intentional efforts when different organizations merge or are acquired, it's particularly challenging when the key assets in the cross-border acquisition are the people employed by the organization being acquired.

Workplace tensions arose over executive compensation, how quickly decisions were made, and how women were treated. For instance, during Nomura's initial training session for new hires, the men and women were separated. The women—many of whom had earned prestigious degrees from the likes of Harvard—were taught how to wear their hair, serve tea, and choose their clothing according to the season. The company's dress code was strictly interpreted for women, also. Women from Lehman were told to remove highlights from their hair, to wear sleeves no shorter than mid-bicep, and to avoid brightly colored clothing. Several women were sent home from the trading floor for dressing "inappropriately." One said, "I was sent home for wearing a short-sleeve dress, even though I was wearing a jacket." A Nomura spokesperson said, "The dress code is displayed on the company's intranet and is intended to ensure that clients and colleagues don't feel uncomfortable."

Lehman bankers also said they found the process for getting approval on deals was "slower and more difficult than it was at Lehman." Also, at Lehman, clients were categorized, in large part, by the fees they paid. At Nomura, more emphasis was placed on other factors, such as the length of the relationship. The bankers at Nomura said that "their new colleagues were too willing to dump loyal clients for a quick profit."

In its defense, Nomura has tried to blend the two cultures. In offices in Europe and in Asia outside of Japan, there's a mix of nationalities. Also, the company has promoted a handful of non-Japanese employees to high-ranking positions. "To reduce the Tokyo-centric nature of the company, Hiromi Yamaji, head of global investment banking, moved to London, and Naoki Matsuba, global head of equities, moved to New York." Until March 2010, Nomura's executive committee was all Japanese men. However, in an attempt to make the company more globally oriented, an ex-Lehman executive and foreigner, Jasjit "Jesse" Bhattal, a native of India, was promoted to the committee. Nomura's deputy president and chief operating officer, Takumi Shibata, said, "When your business is global, management needs to be global."

Discussion Questions

1. What obvious cultural differences between Nomura and Lehman do you see in this situation?
2. What global attitude do you think characterizes Nomura? Be specific in your description. Do you see any evidence of that changing?

3. Do some cultural research on Japan and the United States. Compare those cultural characteristics. What similarities and differences exist? How might these cultural differences be affecting the situation at Nomura?
4. What could Nomura managers do to support, promote, and encourage cultural awareness among employees? Explain.
5. What do you think the statement, "When your business is global, management needs to be global," is saying? In your opinion, is Nomura doing this? Explain.

Answers to "Who Owns What" Quiz

1. **d. Switzerland**
   Nestlé SA bought both the Tombstone and DiGiorno frozen-pizza brands from Kraft Foods in 2009.
2. **c. United States**
   The maker of Lebedyansky juices was acquired by PepsiCo Inc. and Pepsi Bottling Group Inc. in March 2008.
3. **a. United States**
   Rajah Spices are products of the Lea & Perrins sauce division, which the H.J. Heinz Company acquired in June of 2005.
4. **b. India**
   Tetley Tea is owned by the Tata Tea Group, a subsidiary of Indian conglomerate Tata Group.
5. **d. China**
   Ford Motor Company sold the Volvo brand to Chinese car maker Zhejiang Geely Holding Group Co. in March 2010.
6. **a. The Netherlands**
   Mexico's second-largest beer producer was acquired by Heineken N.V. in January 2010.
7. **b. Mexico**
   Grupo Bimbo, one of the world's largest bakeries, bought the rights to make and distribute Boboli pizza crusts in 2002.
8. **c. United States**
   Braun electric shavers are a part of Global Gillette, which was purchased by the Procter & Gamble Company in October 2005.
9. **c. France**
   LVMH Moët Hennessy Louis Vuitton SA, the world's largest luxury-goods group, owns Sephora.
10. **d. South Korea**
    The Boston-based Barbarian Group was acquired by South Korea's largest advertising agency, Cheil Worldwide, in December 2009.
11. **c. Switzerland**
    Nestlé SA purchased the maker of Lean Cuisine frozen meals in 2002.
12. **a. Russia**
    Russian tycoon Alexander Lebedev acquired the *Independent* in March 2010.
13. **b. United Kingdom**
    French's mustard is a product of Reckitt-Benckiser.
14. **a. India**
    Tata Coffee, a division of Indian conglomerate Tata Group, purchased Eight O'Clock Coffee in 2006.
15. **b. United States**
    Consumer products giant Procter & Gamble purchased the luxury hair-care brand from a private equity firm in 2008.

4 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Kim Scartelli

Multiple Franchise Owner and Consultant
Curves for Women
Canton, MI

MY JOB:

I am a multiple franchise owner for Curves fitness center franchises in southeastern Michigan. I am responsible for the marketing, financials, and operations of my locations.

BEST PART OF MY JOB:

I love the flexibility and satisfaction that comes with owning my own business. I worked in corporate America for six years before starting my own business. It's wonderful to be in control of a large part of the personal success that comes with being your own boss.

Managing Diversity

LEARNING OUTCOMES

4.1 **Define** workplace diversity and explain why managing it is so important. *page 98*

4.2 **Describe** the changing workplaces in the United States and around the world. *page 102*

4.3 **Explain** the different types of diversity found in workplaces. *page 105*

4.4 **Discuss** the challenges managers face in managing diversity. *page 110*

4.5 **Describe** various workplace diversity management initiatives. *page 112*

WORST PART OF MY JOB:

When a problem arises, I don't always have someone to handle it so it falls on my shoulders. When you are at the top of your own company, there is no one to pass problems "up" to. It often feels like the responsibility is all mine.

BEST MANAGEMENT ADVICE EVER RECEIVED:

Surround yourself with people who have strengths and abilities different from you. They help fill in the gaps of your weaknesses and make your organization more effective.

A Manager's Dilemma

Companies across Europe have a problem—a large gender gap in leadership.[1] Men far outnumber women in senior business leadership positions. This dismal picture of sexism in Europe exists despite efforts and campaigns to try and ensure equality in the workplace. But one European company is tackling the problem head-on.

Deutsche Telekom, Europe's largest telecommunication company, says that it intends to "more than double the number of women who are managers within five years." In addition, it plans to increase the number of women in senior and middle management to 30 percent by the end of 2015, up from 12 percent today. With this announcement, the company becomes the first member of the DAX 30 index of blue-chip German companies to introduce a gender quota. Deutsche's chief executive René Obermann (pictured on right) said, "Taking on more women in management positions is not about the enforcement of misconstrued egalitarianism. Having a greater number of women at the top will quite simply enable us to operate better."

In addition to its plans to intensify recruiting of female university graduates, Deutsche Telekom will need to make changes in its corporate policies and practices to attract and keep women in management positions.

What Would You Do?

Although Deutsche Telekom's goal of bringing more women into leadership positions is admirable, it's not alone in its inability to diversify its management ranks. Even in the United States, where women have been graduating with advanced professional degrees in record numbers, the number in senior leadership positions remains low—only 3 percent of *Fortune* 500 companies have female CEOs.[2] Clearly, the issue of moving beyond a homogeneous workforce is one that is important for today's managers. In this chapter we'll look closer at managing diversity of all kinds in the workplace.

LEARNING OUTCOME 4.1

Define workplace diversity and explain why managing it is so important.

Diversity 101

Walking through the lobby of one of MGM Mirage's hotels, Brenda Thompson, the company's director of diversity and leadership education notes, "It's amazing all the different languages I can hear. . . . Our guests come from all over the world, and it makes us realize the importance of reflecting that diversity in our workplace." And Thompson has been instrumental in developing a program at MGM that is all "about maximizing 100 percent inclusion of everyone in the organization."[3] Such diversity can be found in many organizational workplaces domestically and globally, and managers in those workplaces are looking for ways to value and develop that diversity, just as Brenda Thompson is doing. However, before we look at what it takes to manage diversity, we first have to know what workplace diversity is and why it's important.

What Is Workplace Diversity?

Look around your classroom (or your workplace). You're likely to see young/old, male/female, tall/short, blonde hair, blue-eyed/dark hair, brown-eyed, any number of races, and any variety of dress styles. You'll see people who speak up in class and others who are content to keep their attention on taking notes or daydreaming. Have you ever noticed your own little world of diversity where you are right now? Many of you may have grown up in an environment around diverse individuals, while others may not have had that experience. We want to focus on *workplace* diversity, so let's look at what it is. By looking at various ways that diversity has been defined, you'll gain a better understanding of it.

Diversity has been "one of the most popular business topics over the last two decades. It ranks with modern business disciplines such as quality, leadership, and ethics. Despite this

popularity, it's also one of the most controversial and least understood topics."[4] With its basis in civil rights legislation and social justice, the word *diversity* often invokes a variety of attitudes and emotional responses in people. Diversity has traditionally been considered a term used by human resources departments, associated with fair hiring practices, discrimination, and inequality. But diversity today is considered to be so much more. Exhibit 4-1 illustrates an historical overview of how the concept and meaning of workforce diversity has evolved.

Let's take a look at some of the ways *diversity* has been defined. For instance, at State Farm, the number one provider of auto insurance in the United States, diversity is viewed as "the collective strength of experiences, skills, talents, perspectives, and cultures that each agent and employee brings to State Farm."[5] Dictionary definitions of diversity refer to variety, differences, multiformity (instead of uniformity), or dissimilarities (instead of similarities). The Society for Human Resource Management, an association of human resource professionals, says that "diversity is often used to refer to differences based on ethnicity, gender, age, religion, disability, national origin and sexual orientation," but it also encompasses an "infinite range of unique characteristics and experiences, including communication styles, physical characteristics such as height and weight, and speed of learning and comprehension."[6] Another definition says that diversity is all the ways in which people differ.[7] One final definition of diversity is the "array of physical and cultural differences that constitute the spectrum of human differences."[8] One important thing to note about these diversity definitions is that they focus on *all* the ways in which people can differ. And that's significant because diversity is no longer viewed as simply specific categories like race, gender, age, or disability but has broadened to a more inclusive recognition of the spectrum of differences.

So, what's our definition of **workplace diversity**? We're defining it as the ways in which people in an organization are different from and similar to one another. Notice that our definition not only focuses on the differences, but the similarities of employees.

EXHIBIT 4-1
Timeline of the Evolution of Workforce Diversity

1960s to 1970s	**Focus on complying with laws and regulations:** Title VII of Civil Rights Act; Equal Employment Opportunity Commission; affirmative action policies and programs
Early 1980s	**Focus on assimilating minorities and women into corporate setting:** Corporate programs developed to help improve self-confidence and qualifications of diverse individuals so they can "fit in"
Late 1980s	**Concept of workforce diversity expanded from compliance to an issue of business survival:** Publication of *Workforce 2000* opened business leaders' eyes about the future composition of workforce—that is, more diverse; first use of term *workforce diversity*
Late 1980s to Late 1990s	**Focus on fostering sensitivity:** Shift from compliance and focusing only on women and minorities to including everyone; making employees more aware and sensitive to the needs and differences of others
New Millennium	**Focus on diversity and inclusion for business success:** Workforce diversity seen as core business issue; important to achieve business success, profitability, and growth

Based on Ernst & Young, "The New Global Mindset: Driving Innovation Through Diversity," EYGM Limited, 2010, pp. 5–6; and R. Anand and M. Frances Winters, "A Retrospective View of Corporate Diversity Training from 1964 to the Present," *Academy of Management Learning & Education,* September 2008, pp. 356–372.

workforce diversity
The ways in which people in an organization are different from and similar to one another

This reinforces our belief that managers and organizations should view employees as having qualities in common as well as differences that separate them. It doesn't mean that those differences are any less important, but that our focus as managers is in finding ways to develop strong relationships with and engage our entire workforce.

We want to point out one final thing about our description of "what" workforce diversity is:[9] The demographic characteristics that we tend to think of when we think of diversity—age, race, gender, ethnicity, etc.—are just the tip of the iceberg. These demographic differences reflect **surface-level diversity**, which are easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel. Such surface-level differences in characteristics can affect the way people perceive others, especially when it comes to assumptions or stereotyping. However, as people get to know one another, these surface-level differences become less important and **deep-level diversity**—differences in values, personality, and work preferences—becomes more important. These deep-level differences can affect the way people view organizational work rewards, communicate, react to leaders, negotiate, and generally behave at work.

Why Is Managing Workforce Diversity So Important?

Ranked number 2 on *Diversity Inc.*'s list of top 50 companies for diversity, voice communications services company AT&T recognizes the powerful benefits of diversity. The company's chief diversity officer says, "We know that diverse, talented and dedicated people are critical to AT&T's success. Investing in a well-educated diverse workforce may be the single most important thing we can to do help America remain the leader in a digital, global economy."[10] BP, the British-owned energy company believes that "supplier diversity—that is, using minority or women suppliers—ensures that it gets the best products and services at the lowest price."[11] Many companies besides AT&T and BP are experiencing the benefits that diversity can bring. In this section, we want to look at *why* workforce diversity is so important to organizations. The benefits fall into three main categories: people management, organizational performance, and strategic. (See Exhibit 4-2.)

EXHIBIT 4-2
Benefits of Workforce Diversity

People Management

- Better use of employee talent
- Increased quality of team problem-solving efforts
- Ability to attract and retain employees of diverse backgrounds

Organizational Performance

- Reduced costs associated with high turnover, absenteeism, and lawsuits
- Enhanced problem-solving ability
- Improved system flexibility

Strategic

- Increased understanding of the marketplace, which improves ability to better market to diverse consumers
- Potential to improve sales growth and increase market share
- Potential source of competitive advantage because of improved innovation efforts
- Viewed as moral and ethical; the "right" thing to do

Sources: Based on Ernst & Young, "The New Global Mindset: Driving Innovation Through Diversity," EYGM Limited, 2010; M. P. Bell, M. L. Connerley, and F. K. Cocchiara, "The Case for Mandatory Diversity Education," *Academy of Management Learning & Education,* December 2009, pp. 597–609; E. Kearney, D. Gebert, and S. C. Voelpel, "When and How Diversity Benefits Teams: The Importance of Team Members' Need for Cognition," *Academy of Management Journal,* June 2009, pp. 581–598; J. A. Gonzalez and A. S. DeNisi, "Cross-Level Effects of Demography and Diversity Climate on Organizational Attachment and Firm Effectiveness," *Journal of Organizational Behavior,* January 2009, pp. 21–40; O. C. Richard, "Racial Diversity, Business Strategy, and Firm Performance: A Resource-Based View," *Academy of Management Journal,* April 2000, pp. 164–177; and G. Robinson and K. Dechant, "Building a Business Case for Diversity," *Academy of Management Executive,* August 1997, pp. 21–31.

PEOPLE MANAGEMENT. When all is said and done, diversity *is*, after all, about people, both inside and outside the organization. The people management benefits that organizations get because of their workforce diversity efforts revolve around attracting and retaining a talented workforce. Organizations want a talented workforce because it's the people—their skills, abilities, and experiences—who make an organization successful. Positive and explicit workforce diversity efforts can help organizations attract and keep talented diverse people and make the best of the talents those individuals bring to the workplace. In addition, another important people management benefit is that as companies rely more on employee teams in the workplace, those work teams with diverse backgrounds often bring different and unique perspectives to discussions, which can result in more creative ideas and solutions. However, recent research has indicated that such benefits might be hard to come by in teams performing more interdependent tasks over a long period of time. Such situations also present more opportunities for conflicts and resentments to build.[12] But, as the researchers pointed out, that simply means that those teams may need stronger team training and coaching to facilitate group decision making and conflict resolution.

ORGANIZATIONAL PERFORMANCE The performance benefits that organizations get from workforce diversity include cost savings and improvements in organizational functioning. The cost savings can be significant when organizations that cultivate a diverse workforce reduce employee turnover, absenteeism, and the chance of lawsuits. For instance, the upscale retailer Abercrombie & Fitch paid $50 million to people who alleged in a lawsuit and two class-action suits that it discriminated against minorities and women.[13] That's an amount of money that can seriously affect an organization's bottom line. In 2009, the Equal Employment Opportunity Commission reported 93,277 workplace discrimination claims were filed, the second highest total number of claims ever filed. But more startling than the total number of claims filed was the monetary relief obtained for victims, which totaled more than $376 million.[14] Workforce diversity efforts can reduce the risk of such lawsuits. In addition, a recent report by recruiting firm Korn/Ferry International found that U.S. companies waste $64 billion annually by losing and replacing employees who leave their jobs "solely due to failed diversity management."[15] That same report noted that 34 percent of those who left jobs because of diversity-related issues would have stayed if managers had recognized their abilities. Finally, organizational performance can be enhanced through workforce diversity because of improved problem-solving abilities and system flexibility. An organization with a diverse workforce can tap into the variety of skills and abilities represented and just the fact that its workforce is diverse requires that processes and procedures be more accommodative and inclusive.

STRATEGIC Organizations benefit strategically from a diverse workforce, as well. You have to look at managing workforce diversity as the key to extracting the best talent, performance, market share, and suppliers from a diverse country and world. One important strategic benefit is that with a diverse workforce, organizations can better anticipate and respond to changing consumer needs. Diverse employees bring a variety of points of view and approaches to opportunities, which can improve how the organization markets to diverse consumers. For instance, as the Hispanic population has grown, so have organizational efforts to market products and services to that demographic group. Organizations have found their Hispanic employees to be a fertile source of insights that would otherwise not have been available. Food service companies, retailers, financial services companies, and automobile manufacturers are just a few of the industries that have seen sales and market share increases because they paid attention to the needs of diverse consumers using information from employees.

A diverse workforce also can be a powerful source of competitive advantage, primarily because innovation thrives in such an environment. A recent report by Ernst & Young stated

surface-level diversity
Easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel

deep-level diversity
Differences in values, personality, and work preferences

that, "Cultural diversity offers the flexibility and creativity we need to re-create the global economy for the twenty-first century."[16] Innovation is never easy, but in a globalized world, it's even more challenging. Tapping into differing voices and viewpoints can be powerful factors in steering innovation. Companies that want to lead their industries have to find ways to "stir the pot"—to generate the lively debate that can create those new ideas. And research shows that diverse viewpoints can do that. "Diversity powers innovation, helping businesses generate new products and services."[17]

Finally, from an ethical perspective, workforce diversity and effectively managing diversity is the right thing to do. Although many societies have laws that say it's illegal to treat diverse people unfairly, many cultures also exhibit a strong ethical belief that diverse people should have access to equal opportunities and be treated fairly and justly. Businesses do have an ethical imperative to build relationships that value and enable all employees to be successful. Managers need to view workforce diversity as a way to bring different voices to the table and to build an environment based on trusting relationships. If they can do that, good things can happen, as we've noted.

LEARNING OUTCOME 4.2
Describe the changing workplaces in the United States and around the world.

The Changing Workplace

An African American as the chief executive of the United States. A woman heading up the State Department. A Latina sitting on the nation's highest court. Even at the highest levels of the political arena, we see a diverse workplace. In the business world, the once predominantly white male managerial workforce has given way to a more gender-balanced, multiethnic workforce. But it's a workforce still in transition as the overall population changes. In this section, we want to look at some of those changes, focusing on demographic trends by looking first at the characteristics of the U.S. population and then at global diversity trends. These trends will be reflected in a changing workplace, thus making this information important for managers to recognize and understand.

Characteristics of the U.S. Population

Statistics from the 2010 U.S. Census are likely to reinforce what we've already seen happening—we are an increasingly diverse society with some major readjustments occurring that will dramatically change the face of America by the year 2050. Let's look at some of the most dramatic of these changes.[18]

- *Total population of the United States:* The total population is projected to increase to 438 million by the year 2050, up from 296 million in 2005; 82 percent of that increase will be due to immigrants and their U.S.-born descendants. Nearly one in five Americans will be an immigrant in 2050, compared with one in eight in 2005.
- *Racial/ethnic groups:* In addition to total population changes, the components of that population are projected to change as well. Exhibit 4-3 provides the projected population breakdown. As the projections show, the main changes will be in the percentages of the Hispanic and white population. But the data also indicate that the Asian population will almost double.

EXHIBIT 4-3
Changing Population Makeup of the United States

	2005	2050
Foreign-born	12%	19%
Racial/Ethnic Groups		
White*	67%	47%
Hispanic	14%	29%
Black*	13%	13%
Asian*	5%	9%

*= Non-Hispanic
American Indian/Alaska Native not included.

Sources: H. El Nasser, "U.S. Hispanic Population to Triple by 2050," *USA Today Online* [www.usatoday .com], February 12, 2008; and "U.S. Population Projections: 2005–2050," Pew Research Center [http://pewhispanic.org/reports/], February 11, 2008.

Canada, like the United States, is becoming an increasingly diverse society with population trends that will continue to have a major impact on Canadian workplaces. When Gordon Nixon assumed the leadership of the Royal Bank of Canada as CEO, he created a diversity council as the first step in a drive to effectively manage a workforce that reflects the makeup of the bank's customer base. By actively recruiting women, immigrants, and minorities, RBC has earned a reputation for inclusiveness that helps it attract top female and minority talent and has developed a motivated workforce that results in better customer service and financial performance.

- *An aging population.* As a nation, our population is aging. According to the CIA *World Factbook*, the median age of the U.S. population stands at 36.7 years, up from 36.2 years in 2001.[19] That's quite a change, although not unexpected. In the first half of the twentieth century, America was a relatively "young" country, the result of lots of babies being born, declining infant and childhood mortality, and high rates of immigration. By 2050, however, one in every five persons will be aged 65 or over. The "oldest" of this group—those aged 80 and over—will be the most populous age group comprising 8 percent of the entire U.S. population. "Aging will continue to be one of the most important defining characteristics of the population."[20]

As you can probably imagine, such population trends are likely to have a major impact on U.S. workplaces. What workplace changes might we see?

According to the U.S. Bureau of Labor Statistics, by the year 2016, 47 percent of the labor force will be women and 37 percent will be Black, Latino, Asian/Pacific Islander, American Indian, or multiple racial categories.[21] In addition, by 2016, the average age of an employee will be 42.1 years.[22] The immigration issue is also likely to be a factor in a changing workplace. According to a recent analysis released by the U.S. Census Bureau, nearly one in six American workers is foreign-born, the highest proportion since the 1920s.[23] Despite the perception that the surge in immigration, especially over the last two decades, has flooded the United States with low-wage foreign labor, a new analysis of census data indicates that's not the reality. In 14 of the 25 largest metropolitan areas, more immigrants were employed in white-collar occupations than in lower-wage jobs like construction, cleaning, or manufacturing.[24] And now, with the total number of immigrants increasing dramatically, this, too, is likely to affect workplaces. Finally, people now entering the workforce are significantly younger, more ethnically diverse and/or foreign-born. In fact, by the year 2016, it's forecasted that 68 percent of new entrants in the U.S. workforce will be women or people of color.[25] The reality of these trends for businesses is that they'll have to accommodate and embrace such workforce changes. Although America historically has been known as a "melting pot" where people of different nationalities, religions, races, and ethnicities have blended together to become one, that perspective is no longer relevant. Organizations must recognize that they can't expect employees to assimilate into the organization by adopting similar attitudes and values. Instead, there's value in the differences that people bring to the workplace. It's not been easy. The ability of managers and organizations to effectively manage diversity has not kept pace with these population changes, creating challenges for minorities, women, and older employees. But many businesses are excelling at managing diversity and we'll discuss some of their workplace diversity initiatives in a later section of this chapter.

What About Global Workforce Changes?

Some significant worldwide population trends also are likely to affect global workforces. According to United Nations forecasts, "The world is in the midst of an epochal demographic shift that will reshape societies, economies, and markets over the next century."[26] Let's look at two of these trends.[27]

- *Total world population.* The total world population in 2010 is estimated at almost 7 billion individuals. However, that number is forecasted to hit 9 billion by 2050, at which point the United Nations predicts the total population will either stabilize or peak after growing for centuries at an ever-accelerating rate. The main reason for this major shift is the decline in birthrates as nations advance economically. However, in developing countries in Africa, Asia, Latin America, the Caribbean, and Oceania, birthrates remain high. One of the benefits is that many of these countries are likely to experience a "demographic dividend: a rising proportion of young people entering the workforce, driving productivity and economic growth."[28]
- *An aging population.* This demographic trend is one of critical importance for organizations. How critical? "The world's population is now aging at an *unprecedented rate.*"[29] How much do *you* know about global aging? (Our guess is . . . probably not much!) Take the quiz in Exhibit 4-4—no peeking at the answers beforehand—and see how well you scored. Were you surprised by some of the answers?

When we say the world's population is aging, some of the realities of this trend are hard to even fathom. For instance, people aged 65 and older will soon outnumber children under age 5 for the *first* time in history. Also, the world's population aged 80 and over is projected to increase 233 percent between the years 2008 and 2040. The implications of

EXHIBIT 4-4

Global Aging: How Much Do You Know?

1. True or False: The world's children under age 5 outnumber people aged 65 and over.
2. The world's older population (65 and older) increased by approximately how many people each month in 2008?
   - **a.** 75,000
   - **b.** 350,000
   - **c.** 600,000
   - **d.** 870,000
3. Which of the world's developing regions has the highest percentage of older people?
   - **a.** Africa
   - **b.** Latin America
   - **c.** The Caribbean
   - **d.** Asia
4. True or False: More than half of the world's older people live in the industrialized nations of Europe, North America, Japan, and Australia.
5. Which country had the world's highest percentage of older people in 2008?
   - **a.** Sweden
   - **b.** Japan
   - **c.** Spain
   - **d.** Italy

Answers to quiz:

1. ***True.*** Although the world's population is aging, children still outnumber older people as of 2008. Projections indicate, however, that in fewer than 10 years, older people will outnumber children for the first time in history.
2. ***d.*** The estimated change in the total size of the world's older population between July 2007 and July 2008 was more than 10.4 million people, an average of 870,000 each month.
3. ***c.*** The Caribbean, with 7.8 percent of all people aged 65 and over in 2008. Numbers for the other regions: Latin America, 6.4 percent; Asia (excluding Japan), 6.2 percent; and Africa, 3.3 percent.
4. ***False.*** Although industrialized nations have higher percentages of older people than do most developing countries, 62 percent of all people aged 65 and over now live in the developing regions of Africa, Asia, Latin America, the Caribbean, and Oceania.
5. ***b.*** Japan, with 22 percent of its population aged 65 or over, has supplanted Italy as the world's oldest major country.

Source: Based on K. Kinsella and W. He, "An Aging World: 2008," U.S. Census Bureau/International Population Reports, June 2009.

these trends for societies and businesses are profound—from changing family structures to shifting patterns of work and retirement to emerging economic challenges based on increasing demands on social entitlement programs, dwindling labor supply, and declining total global savings rates. Such demographic shifts will reshape the global workforce and organizational workplaces. Again, managers and organizations need to understand how such changes are likely to affect future workplace policies and practices.

Types of Workplace Diversity

4.3 LEARNING OUTCOME
Explain the different types of diversity found in workplaces.

As we've seen so far, diversity is a big issue, and an important issue, in today's workplaces. What types of dissimilarities—that is, diversity—do we find in those workplaces? Exhibit 4-5 shows several types of workplace diversity. Let's work our way through the different types.

Age

As we saw in the last section, the aging population is a major critical shift taking place in the workforce. With many of the nearly 85 million baby boomers still employed and active in the workforce, managers must ensure that those employees are not discriminated against because of age. Both Title VII of the Civil Rights Act of 1964 and the Age Discrimination in Employment Act of 1967 prohibit age discrimination. And the Age Discrimination Act also restricts mandatory retirement at specific ages. In addition to complying with these laws, organizations need programs and policies in place that provide for fair and equal treatment of their older employees.

One issue with older workers is the perception that people have of those workers. Perceptions such as they're sick more often and they can't work as hard or as fast as younger employees—perceptions that are inaccurate. Employers have mixed feelings about older workers.[30] On the positive side, they believe that older workers bring a number of good qualities to the job including experience, judgment, a strong work ethic, and a commitment to doing quality work. However, they also view older workers as not being flexible or adaptable and being more resistant to new technology. The challenge for managers is overcoming those misperceptions of older workers and the widespread belief that work performance and work quality decline with age.

Another issue that also supports the need for effectively managing workplace age diversity is that as baby boomers do retire, experts point out that some industries will face severe shortages of qualified employees. "Many of today's growth industries require a higher level

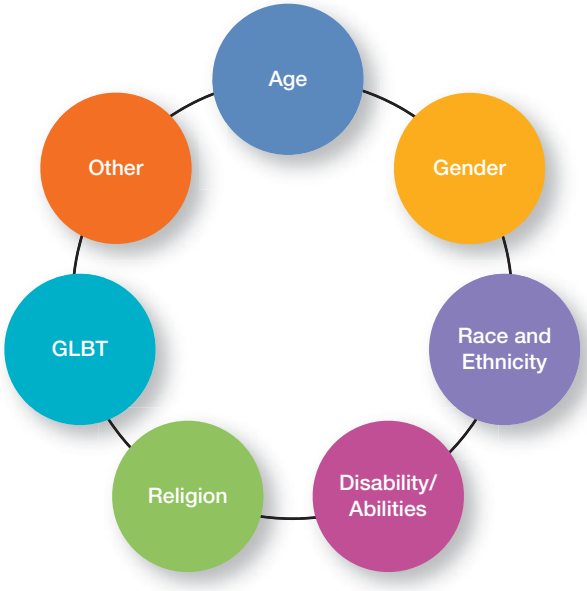


EXHIBIT 4-5
Types of Diversity Found in Workplaces

of technical competence in quantitative reasoning, problem solving, and communication skills…and the United States simply does not have enough students who are getting solid math and science education."[31] Organizations that do not plan for such a future may find themselves struggling to find a competent workforce, diverse or not.

Finally, the aging population is not the only age-related issue facing organizations. Some 50 million Generation Xers juggle work and family responsibilities. And now some 76 million members of Generation Y are either already in or poised to enter the workforce.[32] Having grown up in a world where they've had the opportunity to experience many different things, Gen Y workers bring their own ideas and approaches to the workplace. Managers need to ensure that these workers, regardless of age, also are treated fairly and as valuable assets. Effectively managing an organization's diverse age groups can lead to their working well with each other, learning from each other, and taking advantage of the different perspectives and experiences that each has to offer. It can be a win-win situation for all.

Gender

Women (49.8%) and men (50.2%) now each make up almost half of the workforce.[33] Yet, gender diversity issues are still quite prevalent in organizations. Take the gender pay gap. The latest information on the ratio of women's to men's median weekly earnings showed the figure at 80.2; the ratio for median annual earnings stood at 77.1.[34] Other issues involve career start and progress. Although 57 percent of today's college students are women, and women are just as likely to have completed college and hold an advanced degree, inequities persist.[35] Research by Catalyst found that men start their careers at higher levels than do women. And after starting out behind, women don't ever catch up. Men move further up the career ladder and faster as well.[36] Finally, misconceptions, mistaken beliefs, and unsupported opinions still exist about whether women perform their jobs as well as men do. You can see why gender diversity issues are important to attend to. So what *do* we know about differences between men and women in the workplace?

First of all, few, if any, important differences between men and women affect job performance.[37] No consistent male-female differences exist in problem-solving ability, analytical skills, competitive drive, motivation, sociability, or learning ability. Psychological research has found minor differences: Women tend to be more agreeable and willing to conform to authority while men are more aggressive and more likely to have expectations of success.

Another area where we also see differences between genders is in preference for work schedules, especially when the employee has preschool-age children. To accommodate their family responsibilities, working mothers are more likely to prefer part-time work, flexible work schedules, and telecommuting. They also prefer jobs that encourage work–life balance.

One question of much interest as it relates to gender is whether men and women are equally competent as managers. Research evidence indicates that a "good" manager is still perceived as predominantly masculine.[38] But the reality is that women tend to use a broader, more effective range of leadership styles to motivate and engage people. They usually blend traditional masculine styles—being directive, authoritative, and leading by example—with more feminine ones that include being nurturing, inclusive, and collaborative. Men tend to rely primarily on masculine styles.[39] Another study showed that women managers were significantly more likely than their male counterparts to coach and develop others and to create more committed, collaborative, inclusive, and ultimately, more effective, teams. This study also found that women were more likely to foster genuine collaboration while males were far more likely to view negotiations and other business transactions as zero-sum games.[40]

What should you take away from this discussion? Not that either women or men are the superior employees, but a better appreciation for why it's important for organizations to explore the strengths that both women and men bring to an organization and the barriers they face in contributing fully to organizational efforts.

When Kumi Hatsukano joined Nissan Motor, she experienced sexism and harassment at work. Today, she is a manager at a Nissan factory and is reaping the benefits of the automaker's initiative in Japan called "Women in the Driver's Seat: Gender Diversity as a Lever in Japan." Including women as decision makers and in positions of authority resulted from research that identified women as influencers of two-thirds of all car purchases. Nissan's resulting diversity strategy includes female career advisors, career development events, technical training programs, and incorporating the female perspective in the company's design, manufacturing, selling, and customer service operations.

Race and Ethnicity

There's a long and controversial history in the United States and in other parts of the world over race and how people react to and treat others of a different race. Race and ethnicity are important types of diversity in organizations. We're going to define **race** as the biological heritage (including physical characteristics such as one's skin color and associated traits) that people use to identify themselves. Most people identify themselves as part of a racial group. Such racial classifications are an integral part of a country's cultural, social, and legal environments. The racial choices on the 2010 Census included white, black, American Indian or Alaska Native, Asian, Native Hawaiian or other Pacific Islander, and some other race. This last choice, which was on the 2000 Census form for the first time, provided respondents the opportunity to identify themselves as multiracial.[41] The Census Bureau's chief of the racial statistics branch says, "Multiracial Americans are one of the fastest-growing demographic groups in the country."[42] **Ethnicity** is related to race, but it refers to social traits—such as one's cultural background or allegiance—that are shared by a human population.

As we saw earlier in Exhibit 4-3, the racial and ethnic diversity of the U.S. population is increasing at an exponential rate. We're also seeing this same effect in the composition of the workforce. Most of the research on race and ethnicity as they relate to the workplace has looked at hiring decisions, performance evaluations, pay, and workplace discrimination.[43] However, much of that research has focused on the differences in attitudes and outcomes between Whites and African Americans. Minimal study has been done on issues relevant to Asian, Hispanic, and Native American populations. Let's look at a few key findings.

One finding is that individuals in workplaces tend to favor colleagues of their own race in performance evaluations, promotion decisions, and pay raises. Although such effects are small, they are consistent. Next, research shows substantial racial differences in attitudes toward affirmative action, with African Americans favoring such programs to a greater degree than Whites. Other research shows that African Americans generally do worse than Whites in decisions related to the workplace. For instance, in employment interviews, African Americans receive lower ratings. In the job setting, they receive lower job performance ratings, are paid less, and are promoted less frequently. However, no statistically significant differences between the two races are observed in absenteeism rates, applied social skills at work, or accident rates. As you can see, race and ethnicity issues are a key focus for managers in effectively managing workforce diversity.

race
The biological heritage (including skin color and associated traits) that people use to identify themselves

ethnicity
Social traits (such as cultural background or allegiance) that are shared by a human population

Disability/Abilities

1990 was a watershed year for persons with disabilities. That was the year the Americans with Disabilities Act (ADA) became law. ADA prohibits discrimination against persons with disabilities and also requires employers to make reasonable accommodations so their workplaces are accessible to people with physical or mental disabilities and enable them to effectively perform their jobs. With the law's enactment, individuals with disabilities became a more representative and integral part of the U.S. workforce.

One issue facing managers and organizations is that the definition of disability is quite broad. The U.S. Equal Employment Opportunity Commission classifies a person as disabled if he or she has any physical or mental impairment that substantially limits one or more major life activities. For instance, deafness, chronic back pain, AIDS, missing limbs, seizure disorder, schizophrenia, diabetes, and alcoholism would all qualify. However, since these conditions have almost no common features, it's been difficult to study how each condition affects employment. It's obvious that some jobs cannot be accommodated to a disability. For instance, the law recognizes that a visually impaired person could not be an airline pilot, a person with severe cerebral palsy could not be a surgeon, and a person with profound mobility constraints could not be a firefighter. However, computer technology and other adaptive devices have shattered many employment barriers for other employees with disabilities.

Even after 20-plus years of the ADA, organizations and managers still have fears about employing disabled workers. A survey by the U.S. Department of Labor looked at these unfounded fears.[44] Exhibit 4-6 describes some of those fears as well as the reality; that is, what it's really like. Let's look at one company's experience. Walgreen has hired individuals with mental and physical disabilities to work at its distribution center in Anderson, South Carolina.[45] These employees work in one of three departments: case check-in (where merchandise initially comes in), de-trash (where merchandise is unpacked), or picking (where products are sorted into tubs based on individual store orders). Using an innovative approach that included job coaches, automated processes, and comprehensive training, Walgreen now has a capable and trusted workforce. The company's senior vice president of distribution said, "One thing we found is they (the disabled employees) can all do the job. What surprised us is the environment that it's created. It's a building where everybody helps each other out."

In effectively managing a workforce with disabled employees, managers need to create and maintain an environment in which employees feel comfortable disclosing their need

EXHIBIT 4-6

Employers' Fears About Disabled Workers

- ***FEAR:*** *Hiring people with disabilities leads to higher employment costs and lower profit margins*
  - **REALITY:** Absentee rates for sick time are virtually equal between employees with and without disabilities; workers' disabilities are not a factor in formulas calculating insurance costs for workers' compensation
- ***FEAR:*** *Workers with disabilities lack job skills and experience necessary to perform as well as their abled counterparts*
  - **REALITY:** Commonplace technologies such as the Internet and voice-recognition software have eliminated many of the obstacles for workers with disabilities; many individuals with disabilities have great problem-solving skills from finding creative ways to perform tasks that others may take for granted
- ***FEAR:*** *Uncertainty over how to take potential disciplinary action with a worker with disabilities*
  - **REALITY:** A person with a disability for whom workplace accommodations have been provided has the same obligations and rights as far as job performance
- ***FEAR:*** *High costs associated with accommodating disabled employees*
  - **REALITY:** Most workers with disabilities require *no* accommodation but for those who do, more than half of the workplace modifications cost $500 or less

Sources: R. Braum, "Disabled Workers: Employer Fears Are Groundless," *Bloomberg BusinessWeek Online,* October 2, 2009; and U.S. Department of Labor/Office of Disability Employment Policy, "Survey of Employer Perspectives on the Employment of People with Disabilities [http://www.dol.gov/odep/documents/survey_report_jan_09.doc], November 2008.

for accommodation. Those accommodations, by law, need to enable individuals with disabilities to perform their jobs but they also need to be perceived as equitable by those not disabled. That's the balancing act that managers face.

Religion

Hani Khan, a college sophomore, worked for three months as a stock clerk at a Hollister clothing store in San Francisco.[46] One day, she was told by her supervisors to remove the head scarf that she wears in observance of Islam (known as a *hijab*) because it violated the company's "look policy" (which instructs employees on clothing, hair styles, makeup, and accessories they may wear to work). She refused on religious grounds and was fired one week later. Like a number of other Muslim women (425 in 2009 alone), she filed a federal job discrimination complaint. A spokesperson for Abercrombie & Fitch (Hollister's parent company) said, "If any Abercrombie associate identifies a religious conflict with an Abercrombie policy . . . the company will work with the associate in an attempt to find an accommodation." That's a step in the right direction.

Title VII of the Civil Rights Act prohibits discrimination on the basis of religion (as well as race/ethnicity, country of origin, and sex). Today, it seems that the greatest religious diversity issue in the United States revolves around Islam, especially after 9/11.[47] Islam is one of the world's most popular religions and some 2 million Muslims live in the United States. For the most part, U.S. Muslims have attitudes similar to those of other U.S. citizens. However, there are real and perceived differences. For instance, nearly 4 in 10 U.S. adults admit they harbor negative feelings or prejudices toward U.S. Muslims and 52 percent believe U.S. Muslims are not respectful of women.

Religious beliefs also can prohibit or encourage work behaviors. Many conservative Jews believe they should not work on Saturdays. Some Christians do not want to work on Sundays. Religious individuals may believe they have an obligation to express their beliefs in the workplace making it uncomfortable for those who may not share those beliefs. Some pharmacists have refused to give out RU-486 (the "morning after" abortion pill) on the basis of their beliefs.

As you can see, religion and religious beliefs can generate misperceptions and negative feelings. You'd probably not be surprised to find out that the number of religious discrimination claims has been growing in the United States.[48] In accommodating religious diversity, managers need to recognize and be aware of different religions and their beliefs, paying special attention to when certain religious holidays fall. Try to accommodate, when at all possible, employees who have special needs or requests, but do so in a way that other employees don't view it as "special treatment."

GLBT: Sexual Orientation and Gender Identity

The acronym GLBT—which refers to gay, lesbian, bisexual, and transgender people—is being used more frequently and relates to the diversity of sexual orientation and gender identity.[49] Sexual orientation has been called the "last acceptable bias."[50] We want to emphasize that we're not condoning this perspective, but what this comment refers to is that most people understand that racial and ethnic stereotypes are "off-limits," but it's not unusual to hear derogatory comments about gays or lesbians. U.S. federal law does not prohibit discrimination against employees on the basis of sexual orientation, although many states and municipalities do. However, in Europe, the Employment Equality Directive required all European Union member states to introduce legislation making it unlawful to discriminate on grounds of sexual orientation.[51] Despite the progress in making workplaces more accommodating of gays and lesbians, much more needs to be done. One study found more than 40 percent of gay and lesbian employees indicated that they had been unfairly treated, denied a promotion, or pushed to quit their job because of their sexual orientation.[52]

Employers in the United States have taken differing approaches to their treatment of sexual orientation.[53] Many have adopted a variation of the "don't ask, don't tell" policy of the military. Some just flat out do not hire any GLBT employees. However, according to a report from the Human Rights Campaign Foundation, 85 percent of the largest corporations

Let's Get Real

F2F

You can accommodate special needs of different groups without appearing to show favoritism or offending other groups by *implementing fair and consistent company policies that don't give privileges to one group of people over another.*

by the numbers[54]

11 percent—the amount by which women *under*-estimated the performance scores their bosses gave them.

80 percent of women feel that their worth is determined by what their companies choose to pay them.

79 percent of survey respondents believe that there is a definite generation gap.

75 percent of corporate executives believe that having minorities in senior executive positions is important.

78 percent of employees say that their companies do not practice diversity in their workforces as much as they claim publicly.

41 percent of employees say there's more diversity in their workplace than was there 10 years ago.

30 percent of women say that the pay scale for women is the top barrier to women in the workplace.

in the United States now prohibit employment discrimination based on sexual orientation and 35 percent prohibit bias based on gender identity.[55] An increasing number of large companies are implementing policies and practices to protect the rights of GLBT employees in the workplace. For instance, Ernst & Young, S. C. Johnson & Sons, Inc., and Kodak, among others, all provide training to managers on ways to prevent sexual orientation discrimination. A diversity manager at IBM says, "We believe that having strong transgender and gender identification policies is a natural extension of IBM's corporate culture."[56] And more than 57 percent of the largest corporations in the United States now offer their employees health insurance benefits for domestic partners.[57] A recent study analyzed the effect of company GLBT nondiscrimination policies on that company's stock market value. The findings suggest that the stock prices of companies with more progressive GLBT policies outperform those of competitors in the same industry that don't have such policies.[58]

As with most of the types of diversity we've discussed in this section, managers need to look at how best to meet the needs of their GLBT employees. They need to respond to employees' concerns while also creating a safe and productive work environment for all.

Other Types of Diversity

As we said earlier, diversity refers to *any* dissimilarities or differences that might be present in a workplace. Other types of workplace diversity that managers might confront and have to deal with include socioeconomic background (social class and income-related factors), team members from different functional areas or organizational units, physical attractiveness, obesity/thinness, job seniority, or intellectual abilities. Each of these types of diversity also can affect how employees are treated in the workplace. Again, managers need to ensure that all employees—no matter the similarities or dissimilarities—are treated fairly and given the opportunity and support to do their jobs to the best of their abilities.

LEARNING OUTCOME 4.4
Discuss the challenges managers face in managing diversity.

Challenges in Managing Diversity

Although the nooses, racist graffiti, and Confederate battle flags should have been enough to warrant action, it wasn't until an African American employee at a Texas-based plant of Turner Industries Group LLC discovered that he was being paid less as a painter than white workers were being paid finally complained.[59] Soon after filing the complaint, he was fired. His complaints, along with those of seven other employees, "have led the federal government to conclude there was evidence of racial discrimination." Despite the benefits that we know workforce diversity brings to organizations, managers still face challenges in creating accommodating and safe work environments for diverse employees. In this section, we're going to look at two of those challenges: personal bias and the glass ceiling.

Personal Bias

Smokers. Working mothers. Football players. Blondes. Female president of the United States. Hispanic. What impressions come to mind when you read these words? Based on your background and experiences, you probably have pretty specific ideas and things you would say, maybe even to the point of characteristics you think that all smokers or all working mothers or all Hispanics share. Employees can and do bring such ideas about various groups of people with them into the workplace. Such ideas can lead to prejudice, discrimination, and stereotypes, all of which shape and influence our personal biases.

Bias is a term that describes a tendency or preference toward a particular perspective or ideology. It's generally seen as a "one-sided" perspective. Our personal biases cause us to have preconceived opinions about people or things. Such preconceived opinions can create all kinds of inaccurate judgments and attitudes. Let's take a look at how our personal biases affect the way we view and respond to diversity.

One outcome of our personal biases can be **prejudice**, a preconceived belief, opinion, or judgment toward a person or a group of people. Our prejudice can be based on all the types of diversity we discussed: race, gender, ethnicity, age, disability, religion, sexual orientation, or even other personal characteristics.

A major factor in prejudice is **stereotyping**, which is judging a person on the basis of one's perception of a group to which he or she belongs. For instance, "Married persons are more stable employees than single persons" is an example of stereotyping. Keep in mind, though, that not all stereotypes are inaccurate. For instance, asking someone in accounting about a budgeting problem you're having would be an appropriate assumption and action. However, many stereotypes—red-haired people have a bad temper, elderly drivers are the most dangerous, working mothers aren't as committed to their careers as men are, and so forth—aren't factual and distort our judgment.

Both prejudice and stereotyping can lead to someone treating others who are members of a particular group unequally. That's what we call **discrimination**, which is when someone acts out their prejudicial attitudes toward people who are the targets of their prejudice. You'll find in Exhibit 4-7 definitions and examples of different types of discrimination.

EXHIBIT 4-7
Forms of Discrimination

Type of Discrimination	Definition	Examples from Organizations
Discriminatory policies or practices	Actions taken by representatives of the organization that deny equal opportunity to perform or unequal rewards for performance	Older workers may be targeted for layoffs because they are highly paid and have lucrative benefits.[a]
Sexual harassment	Unwanted sexual advances and other verbal or physical conduct of a sexual nature that create a hostile or offensive work environment	Salespeople at one company went on company-paid visits to strip clubs, brought strippers into the office to celebrate promotions, and fostered pervasive sexual rumors.[b]
Intimidation	Overt threats or bullying directed at members of specific groups of employees	African American employees at some companies have found nooses hanging over their work stations.[c]
Mockery and insults	Jokes or negative stereotypes; sometimes the result of jokes taken too far	Arab Americans have been asked at work whether they were carrying bombs or were members of terrorist organizations.[d]
Exclusion	Exclusion of certain people from job opportunities, social events, discussions, or informal mentoring; can occur unintentionally	Many women in finance claim they are assigned to marginal job roles or are given light workloads that don't lead to promotion.[e]
Incivility	Disrespectful treatment, including behaving in an aggressive manner, interrupting the person, or ignoring his or her opinions	Female lawyers note that male attorneys frequently cut them off or do not adequately address their comments.[f]

Notes:
a. J. Levitz and P. Shishkin, "More Workers Cite Age Bias After Layoffs," *Wall Street Journal*, March 11, 2009, pp. D1–D2.
b. W. M. Bulkeley, "A Data-Storage Titan Confronts Bias Claims," *Wall Street Journal*, September 12, 2007, pp. A1, A16.
c. D. Walker, "Incident with Noose Stirs Old Memories," *McClatchy-Tribune Business News*, June 29, 2008; and D. Solis, "Racial Horror Stories Keep EEOC Busy," *Knight-Ridder Tribune Business News*, July 30, 2005, p. 1.
d. H. Ibish and A. Stewart, *Report on Hate Crimes and Discrimination Against Arab Americans: The Post-September 11 Backlash, September 11, 2001—October 11, 2001* (Washington, DC: American-Arab Anti-Discrimination Committee, 2003).
e. A. Raghavan, "Wall Street's Disappearing Women," *Forbes*, March 16, 2009, pp. 72–78.
f. L. M. Cortina, "Unseen Injustice: Incivility as Modern Discrimination in Organizations."

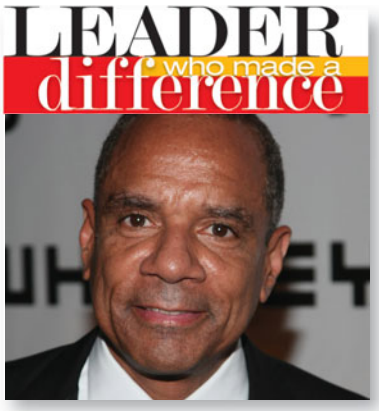
Source: S. Robbins and T. Judge, *Organizational Behavior,* 14th ed., Prentice Hall, p. 43.

bias
A tendency or preference toward a particular perspective or ideology

prejudice
A preconceived belief, opinion, or judgment toward a person or a group of people

stereotyping
Judging a person based on a perception of a group to which that person belongs

discrimination
When someone acts out their prejudicial attitudes toward people who are the targets of their prejudice



"To succeed in today's fast-paced work environment, we must understand the needs and expectations of a diverse, multigenerational and global workforce."[60] That's the commitment made by American Express to its employees. Sitting in the top spot at American Express is Kenneth I. Chenault, an African American, who was named by *Black Enterprise* magazine as number one on the list of the 100 most powerful executives in corporate America. Chenault is known for his friendliness and integrity as much as for his discipline and drive. His business acumen is unparalleled having successfully guided his company through the financial meltdown. But he also recognizes the importance of being a leader who knows the importance of attracting and retaining the highest caliber of employees. Chenault meets regularly with the company's employee resource groups, holds senior executives personally responsible for meeting diversity goals, and is a visible supporter of the company's diversity initiatives.

Many of these actions are prohibited by law so you won't find them discussed in employee handbooks or organizational policy statements. However, you can still see these actions in workplaces. "As discrimination has increasingly come under both legal scrutiny and social disapproval, most overt forms have faded, which may have resulted in an increase in more covert forms like incivility or exclusion."[61]

Discrimination, whether intentional or not, can lead to serious negative consequences for employers as illustrated by the example we discussed at the beginning of this section. But it's not just the potential financial consequences organizations and managers face for discriminatory actions. It's the reduced employee productivity, negative and disruptive interpersonal conflicts, increased employee turnover, and overall negative climate that can lead to serious problems for managers. Even if an organization has never had an employment discrimination lawsuit filed against it, managers need to aggressively work to eliminate unfair discrimination.

Glass Ceiling

Pretend that you've just finished your MBA degree. It's not been easy. Your graduate classes were challenging, but you feel well-prepared for and excited about that first post-MBA job. If you're female, that first job for 60 percent of you will be an entry-level position. However, if you're male, only 46 percent of you would start out in an entry-level position.[62] And 2 percent of women would make it to the CEO or senior executive position, although 6 percent of men would. "Although entry into occupations such as accounting, business, and law happens at about the same rate for men and women, evidence is mounting that women's and men's career paths begin to divide soon after."[63] This issue can be seen with minorities as well. Only a small percentage of both male and female Hispanics and African Americans have made it into management positions in the United States. What's going on here? After all these years of "equal opportunity," why do we still see statistics like these?

In the 1980s, the term **glass ceiling**, first used in a *Wall Street Journal* article, refers to the invisible barrier that separates women and minorities from top management positions.[64] The idea of a "ceiling" means that there is something blocking upward movement and the idea of "glass" is that whatever's blocking the way isn't immediately apparent.

Research on the glass ceiling has looked at identifying the organizational practices and interpersonal biases that have blocked women's advancement. Findings from those studies have ranged from lack of mentoring, sex stereotyping, views that associate masculine traits with leader effectiveness, and bosses' perceptions of family–work conflict.[65]

As others have said, it's time to shatter the glass ceiling for all employees. Every employee should have the opportunity to work in a career in which they can use their skills and abilities and to have a career path that allows them to progress however far they want to go. Getting to that end, however, isn't going to be easy. As we'll see in the next section, however, there are a number of workplace diversity initiatives that organizations can implement to work toward that end.

LEARNING OUTCOME 4.5
Describe various workplace diversity management initiatives.

Workplace Diversity Initiatives

"Marriott International is the textbook definition of a great company for diversity."[66] Bill Marriott, the company's chairman and CEO, is a visible force and advocate for diversity both in the company and externally. He personally signs off on bonuses for his top staff, which are tied to diversity efforts and ability to meet diversity goals, an amount that can

account for 13 percent of their compensation. The company also has mandatory diversity training every month and a number of employee resource groups that provide input and advice. Their diversity management efforts have earned the company the number 4 spot on the Top 50 Companies for Diversity list for 2009.

As the Marriott example shows, some businesses *are* effectively managing diversity. In this section we want to look at various workplace diversity initiatives. Before we start discussing these, however, we want to look at the legal framework within which diversity efforts take place.

The Legal Aspect of Workplace Diversity

Would workplaces have evolved to the level of diversity that currently exists without federal legislation and mandates?[67] Although it's an interesting question, the fact is that federal laws *have* contributed to some of the social change we've seen over the last 50-plus years. Exhibit 4-8 describes the major equal employment opportunity laws with which organizations must comply. Failure to do so, as we have seen in some of the examples we've described, can be costly and damaging to an organization's bottom line and reputation. It's important that managers know what they can and cannot do legally and ensure that all employees understand as well.

However, effectively managing workplace diversity needs to be more than understanding and complying with federal laws. Organizations that are successful at managing

EXHIBIT 4-8
Major Equal Employment Opportunity Laws

Year	Law or Ruling	Description
1963	Equal Pay Act	Prohibits pay differences for equal work based on gender
1964 (amended in 1972)	Civil Rights Act, Title VII	Prohibits discrimination based on race, color, religion, national origin, or gender
1967 (amended in 1978)	Age Discrimination in Employment Act	Prohibits discrimination against employees 40 years and older
1978	Pregnancy Discrimination Act	Prohibits discrimination against women in employment decisions on the basis of pregnancy, childbirth, and related medical decisions
1978	Mandatory Retirement Act	Prohibits the forced retirement of most employees
1990	Americans with Disabilities Act	Prohibits discrimination against individuals who have disabilities or chronic illnesses; also requires reasonable accommodations for these individuals
1991	Civil Rights Act of 1991	Reaffirms and tightens prohibition of discrimination and gives individuals right to sue for punitive damages
1993	Family and Medical Leave Act	Gives employees in organizations with 50 or more employees up to 12 weeks of unpaid leave each year for family or medical reasons
2009	Lilly Ledbetter Fair Pay Act	Changes the statute of limitations on pay discrimination to 180 days from each paycheck

glass ceiling
The invisible barrier that separates women and minorities from top management positions

diversity use additional diversity initiatives and programs. We're going to look at four of these including top management commitment, mentoring, diversity skills training, and employee resource groups.

Top Management Commitment to Diversity

Today's increasingly competitive marketplace underscores the reality that creating a diverse workplace has never been more important. It's equally important to make diversity and inclusion an integral part of the organization's culture. "A sustainable diversity and inclusion strategy must play a central role in decision making at the highest leadership level and filter down to every level of the company."[68] How do organizational leaders do that?

One of the first things to do is make sure that diversity and inclusion are part of the organization's purpose, goals, and strategies. Even during economically challenging times, an organization needs a strong commitment to diversity and inclusion programs. Diversity needs to be integrated into every aspect of the business—from the workforce, customers, and suppliers to products, services, and the communities served. Policies and procedures must be in place to ensure that grievances and concerns are addressed immediately. Finally, the organizational culture needs to be one where diversity and inclusion are valued, even to the point where, like Marriott International, individual performance is measured and rewarded on diversity accomplishments.

Mentoring

One of the consequences of having few women and minorities in top corporate leadership positions is that lower-level diverse employees lack someone to turn to for support or advice. That's where a mentoring program can be beneficial. **Mentoring** is a process whereby an experienced organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé). Mentors usually provide two unique forms of mentoring functions—career development and social support.[69]

Andrea Jung, CEO of Avon Products, the first woman to hold that job in the female-oriented products company, said that her male mentor (previous CEO James Preston) had the most influence on her career.[70] A study by Catalyst of male mentors to women found that men who impeded or who were indifferent to the progress of women viewed the workplace as a zero-sum game where promotion of women came at the expense of men. However, one thing that stood out among males who championed women was a strong sense of fairness.[71]

A good mentoring program would be aimed at all diverse employees with high potential to move up the organization's career ladder. Exhibit 4-9 looks at what a good mentor does. If an organization is serious about its commitment to diversity, it needs to have a mentoring program in place.

EXHIBIT 4-9
What a Good Mentor Does

- Provides instruction
- Offers advice
- Gives constructive criticism
- Helps build appropriate skills
- Shares technical expertise
- Develops a high-quality, close, and supportive relationship with protégé
- Keeps lines of communication open
- Knows when to "let go" and let the protégé prove what he/she can do

Sources: J. Prime and C. A. Moss-Racusin, "Engaging Men in Gender Initiatives: What Change Agents Need to Know," *Catalyst* [www.catalyst.org], 2009; T. J. DeLong, J. J. Gabarro, and R. J. Lees, "Why Mentoring Matters in a Hypercompetitive World," *Harvard Business Review,* January 2008, pp. 115–121; S. N. Mehta, "Why Mentoring Works," *Fortune,* July 9, 2001, p. 119; and D. A. Thomas, "Race Matters: The Truth About Mentoring Minorities," *Harvard Business Review,* April 2001, pp. 99–107.

Diversity Skills Training

These men and women employed at IBM have the opportunity to participate in employee resource groups for eight constituencies: women, blacks, Hispanics, Asians, Native Americans, people with disabilities, GLBT (gay, lesbian, bisexual, and transgender) and men, as well as another group that focuses on work–life balance. IBM has more than 200 network groups within this framework, 42 of which are women's groups. The company supports these groups of employees who come together voluntarily to help IBM be a better place to work and to help each other become more effective by improving their professional and technical skills.

"The only thing in human DNA is to discriminate. It's a part of normal human tribal behavior."[72] In a chapter on managing diversity, you might be surprised to find a statement like this. However, the reality is . . . it's reality. Our human nature is to not accept or approach anything that's different from us. But it doesn't make discrimination of any type or form acceptable. And we live and work in a multicultural context. So the challenge for organizations is to find ways for employees to be effective in dealing with others who aren't like them. That's where **diversity skills training**, specialized training to educate employees about the importance of diversity and teach them skills for working in a diverse workplace, comes in. It's estimated that some $80 billion has been spent over the last 10 years on diversity programs, much of it spent on training.[73]

Most diversity skills training programs start with *diversity awareness training.* During this type of training, employees are made aware of the assumptions and biases they may have. Once we recognize that, we can look at increasing our sensitivity and openness to those who are different from us. Sounds simple, but it's not. But if people can be taught to recognize that they're prejudging people and to consciously address that behavior, then the diversity awareness training has been successful. Then, the next step is *diversity skills training*, in which people learn specific skills on how to communicate and work effectively in a diverse work environment. At Sodexho, the food services/facilities management company, employee diversity training is an important part of their diversity management program. The company's chief diversity officer said, "As an organization, we have worked to implement the right policies, but more importantly, empower all our employees to understand issues of diversity and work to ensure change happens at every level of our company."[74]

Employee Resource Groups

Kellogg Company, the cereal company, is a pioneer in workplace diversity. More than 100 years ago, the company's founder, W. K. Kellogg, employed women in the workplace and reached across cultural boundaries. That commitment to diversity continues today. The company's CEO says, "There's no doubt that our success comes from the many different backgrounds, experiences, ideas, and viewpoints that our people contribute to our business."[75] Kellogg's has been very supportive of its various **employee resource groups**, made up of employees connected by some common dimension of diversity. Such groups typically are formed by the employees themselves, not the organizations. However, it's important for organizations to recognize and support these groups.

Employee resource groups (also called employee networks or affinity groups) have become quite popular over the last 10 years.[76] Why are they so popular? The main reason is that diverse groups have the opportunity to see that their existence is acknowledged and that they have the support of people within and outside the group. Individuals in a minority often feel that they're invisible and not important in the overall organizational scheme of things. Employee resource groups provide an opportunity for those individuals to have a voice. For instance, at Kellogg, there's a WOK (Women of Kellogg) group, a KAARG (Kellogg African American Resource Group), !HOLA! (Kellogg's Latino Employee Resource Group), K-MERG (Kellogg Multinational Employee Resource Group), and YP (Kellogg Young Professionals Employee Resource Group). The description for WOK says,

mentoring
A process whereby an experienced organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé)

diversity skills training
Specialized training to educate employees about the importance of diversity and teach them skills for working in a diverse workplace

employee resource groups
Groups made up of employees connected by some common dimension of diversity

"This community of employees is dedicated to the personal and professional growth and development of the women within Kellogg Company. They work together to project a common voice for the shared experiences, perceptions, and needs of women in the Kellogg workplace and to help members reach their full potential." The statements about the other groups are similar in describing the commitment to empowering, leveraging, and fostering the development of the individual members of the resource group. Through these employee resource groups, those in a minority find that they're not alone. And that can be a powerful means of embracing and including all employees, regardless of their differences.

What Would You Do?

Kim Scartelli
Multiple Franchise Owner and Consultant
Curves for Women
Canton, MI

Let's Get Real:

My Response *to A Manager's Dilemma, page 98*

I think it is admirable for the Deutsche Telekom Company to recognize the need for more women in management positions in their company. However, the idea of a quota troubles me. Quotas could backfire and have the negative effect of lowering morale in a company. In this case, for instance, women who are promoted might feel as though they were selected for their gender versus their individual merit, performance, or abilities. Men, on the other hand, might resent being passed over for promotion to meet the arbitrary quota and may leave a company because they feel as if they can never get ahead with the company policies and quota in place.

Deutsche Telekom can keep their goal of increasing women in management but instead of implementing a quota could:

- Research and understand the root causes of the gender gap.
- Provide gender awareness education for all leaders in the company.
- Begin removing the barriers that keep women from reaching these positions.

CHAPTER SUMMARY
by Learning Outcomes

Define workplace diversity and explain why managing it is so important.

LEARNING OUTCOME 4.1

Workplace diversity is the ways in which people in an organization are different from and similar to one another. Managing workforce diversity is important for three reasons: (1) people management benefits—better use of employee talent, increased quality of team problem-solving efforts, and ability to attract and retain diverse employees; (2) organizational performance benefits—reduced costs, enhanced problem-solving ability, and improved system flexibility; and (3) strategic benefits—increased understanding of diverse marketplace, potential to improve sales and market share, competitive advantage because of improved innovation efforts, and viewed as moral and ethical.

Describe the changing workplaces in the United States and around the world.

LEARNING OUTCOME 4.2

The main changes in the workplace in the United States include the total increase in the population, the changing components of the population especially in relation to racial/ethnic groups, and an aging population. The most important changes in the global population include the total world population and the aging of that population.

Explain the different types of diversity found in workplaces.

LEARNING OUTCOME 4.3

The different types of diversity found in workplaces include age (older workers and younger workers), gender (male and female), race and ethnicity (racial and ethnic classifications), disability/abilities (people with a disability that limits major life activities), religion (religious beliefs and religious practices), sexual orientation and gender identity (gay, lesbian, bisexual, and transgender) and other (for instance, socioeconomic background, team members from different functional areas, physical attractiveness, obesity, job seniority, and so forth).

Discuss the challenges managers face in managing diversity.

LEARNING OUTCOME 4.4

The two main challenges managers face are personal bias and the glass ceiling. Bias is a tendency or preference toward a particular perspective or ideology. Our biases can lead to prejudice, which is a preconceived belief, opinion, or judgment toward a person or a group of people; stereotyping, which is judging a person on the basis of one's perception of a group to which he or she belongs; and discrimination, which is when someone acts out their prejudicial attitudes toward people who are the targets of their prejudice. The glass ceiling refers to the invisible barrier that separates women and minorities from top management positions.

Describe various workplace diversity management initiatives.

LEARNING OUTCOME 4.5

It's important to understand the role of federal laws in diversity. Some of these laws include Title VII of the Civil Rights Act, the Americans with Disabilities Act, and Age Discrimination in Employment Act. Workplace diversity management initiatives include top management commitment to diversity; mentoring, which is a process whereby an experienced organizational member provides advice and guidance to a less-experienced member; diversity skills training; and employee resource groups, which are groups made up of employees connected by some common dimension of diversity.

PEARSON mymanagementlab

To check your understanding of learning outcomes 4.1 – 4.5 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. What is workforce diversity and why is managing it so important?
2. Why is it important for an organization to have a clear definition of diversity?
3. Distinguish between surface-level diversity and deep-level diversity. Why is it important to understand the difference between the two?
4. What are the major trends in the changing populations of the United States and the world?
5. Describe the issues associated with each of the types of workforce diversity.
6. Distinguish between race and ethnicity.
7. What challenges do managers face in creating accommodating and safe work environments for employees?
8. Explain the relationship between bias, prejudice, stereotyping, and discrimination.
9. What U.S. federal laws are important to workplace diversity initiatives?
10. Why do you think the glass ceiling has proven to be a barrier to women and minorities?

PREPARING FOR: My Career

ETHICS DILEMMA

In August of 2009, a viral campaign against McDonald's website, 365black.com, began to spread.[77] Anger over the website grew as news commentators discovered an additional McDonald's website targeting the Asian community, called MyInspirAsian.com. One individual said, "Even if the idea was a good one and truly was promoting Black cultural heritage, it really does come off as manipulation and stereotyping." Check out both websites. What do you think? Do you think these targeted sites are manipulative and stereotypical? Why or why not? Is there anything else the company could or should be doing?

SKILLS EXERCISE

Developing Your Valuing Diversity Skill

About the Skill

Understanding and managing people who are similar to us are challenges—but understanding and managing people who are dissimilar from us and from each other can be even tougher.[78] The diversity issues an individual manager might face are many. They may include issues such as communicating with employees whose familiarity with the language may be limited; creating career development programs that fit the skills, needs, and values of a particular group; helping a diverse team cope with a conflict over goals or work assignments; or learning which rewards are valued by different groups.

Steps in Practicing the Skill

1. *Fully accept diversity.* Successfully valuing diversity starts with each individual accepting the principle of diversity. Accept the value of diversity for its own sake—not simply because it's the right thing to do. And it's important that you reflect your acceptance in all you say and do.
2. *Recruit broadly.* When you have job openings, work to get a diverse applicant pool. Although referrals from current employees can be a good source of applicants, that source tends to produce candidates similar to the present workforce.
3. *Select fairly.* Make sure that the selection process doesn't discriminate. One suggestion is to use job-specific tests rather than general aptitude or knowledge tests. Such tests measure specific skills, not subjective characteristics.
4. *Provide orientation and training for diverse employees.* Making the transition from outsider to insider can be particularly difficult for a diverse employee. Provide support either through a group or through a mentoring arrangement.
5. *Sensitize nondiverse employees.* Not only do you personally need to accept and value diversity, as a manager you need to encourage all your employees to do so. Many organizations do this through diversity training programs. In addition, employees can also be part of ongoing discussion groups whose members meet monthly to discuss stereotypes and ways of improving diversity relationships. The most important thing a manager can do is show by his or her actions that diversity is valued.

6. *Strive to be flexible.* Part of valuing diversity is recognizing that different groups have different needs and values. Be flexible in accommodating employee requests.
7. *Seek to motivate individually.* Motivating employees is an important skill for any manager; motivating a diverse workforce has its own special challenges. Managers must strive to be in tune with the background, cultures, and values of employees.
8. *Reinforce employee differences.* Encourage individuals to embrace and value diverse views. Create traditions and ceremonies that promote diversity. Celebrate diversity by accentuating its positive aspects. However, also be prepared to deal with the challenges of diversity such as mistrust, miscommunication, lack of cohesiveness, attitudinal differences, and stress.

Practicing the Skill

Read through the following scenario. Write down some notes about how you would handle the situation described. Be sure to refer to the eight behaviors described for valuing diversity.

Scenario

Read through the descriptions of the following employees who work for the same organization. After reading each description, write a short paragraph describing what you think the goals and priorities of each employee might be. With what types of employee issues might the manager of each employee have to deal? How could these managers show that they value the diversity represented by each?

Lester. Lester is 57 years old, a college graduate, and a vice president of the firm. His two children are married and he is a grandparent of three beautiful grandchildren. He lives in a condo with his wife who does volunteer work and is active in their church. Lester is healthy and likes to stay active, both physically and mentally.

Sanjyot. Sanjyot is a 30-year-old clerical worker who came to the United States from Indonesia 10 years ago. She completed high school after moving to the United States and has begun to attend evening classes at a local community college. Sanjyot is a single parent with two children under the age of 8. Although her health is excellent, one of her children suffers from a severe learning disability.

Yuri. Yuri is a recent immigrant from one of the former Soviet republics. He is 42 years old and his English communication skills are quite limited. He has an engineering degree from his country but since he's not licensed to practice in the United States, he works as a parts clerk. He is unmarried and has no children but feels obligated to send much of his paycheck to relatives back in his home country.

WORKING TOGETHER

Team Exercise

The popularity of employee resource groups continues to climb. Form small groups with three or four other class members. Your task is to research how to form employee resource groups for staff members at your school. Come up with a written plan that discusses the benefits and challenges of employee resource groups, the steps to follow in creating these groups, and suggestions for maintaining the value of such groups for their members. Be prepared to turn in your written report to your professor or to present it in class.

MY TURN TO BE A MANAGER

- Describe your experiences with people from other backgrounds. What challenges have you faced? What have you learned that will help you in understanding the unique needs and challenges of a diverse workplace?
- Go to *DiversityInc.com* [www.diversityinc.com] and find the latest list of Top 50 Companies for Diversity. Select three companies from this list. Describe and evaluate what they're doing as far as workplace diversity.
- Think of times when you may have been treated unfairly because of stereotypical thinking. What stereotypes were being used? How did you respond to the treatment?
- Go to the website of Catalyst [www.catalyst.org] and find the Research & Knowledge tab. Click on "Browse Research & Knowledge." Go through the list and find the research on "Women in Management, Global Comparison." What surprised you the most about the data shown there? Why?
- Find two examples of companies that are doing each of the four workplace diversity initiatives. Write a short description of what each is doing.
- Steve's and Mary's suggested readings: C. Harvey and M. J. Allard, *Understanding and Managing Diversity,* 4th ed. (Upper Saddle River, NJ: Pearson Prentice Hall, 2009); S. Thiederman, *Making Diversity Work: 7 Steps for Defeating Bias in the Workplace,* 2nd ed. (New York: Kaplan Publishing, 2008); A. M. Konrad, P. Prasad, and J. K. Pringle (eds.), *Handbook of Workplace Diversity* (Thousand Oaks, CA: Sage Publications, 2006); and G. N. Powell, *Managing a Diverse Workforce,* 2nd ed. (Thousand Oaks, CA: Sage Publications, 2004).

- Pick one of the laws listed in Exhibit 4-8. Research that law looking for these elements: Whom does the law cover? What does the law prohibit? What are the consequences for violating the law?
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete any of these self-assessment exercises: What Are My Attitudes Toward Workplace Diversity? Am I Well-Suited for a Career as a Global Manager? What's My Attitude Toward Older People? and What Are My Gender Role Perceptions? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Mission Possible: Strategic Diversity

Changing demographics and the adoption of a strategy that prevents as well as wins wars have brought more ethnic and gender diversity to the U.S. Navy and the U.S. Naval Academy.

The U.S. Navy and the U.S. Naval Academy, the prestigious undergraduate college of the Navy service in Annapolis, Maryland, might not be places that come to mind when you think of organizations that are superior diversity champions.[79] Yet the Navy is just that. In fact, the enlisted force of the Navy is more than 40 percent diverse.

The Deputy Chief of Naval Operations Vice Admiral says, "We view the diversity imperative as a strategic issue for several reasons." One reason is the changing demographics of the United States. With nearly 70 percent of new workers entering the workforce in our recruitable demographic being women and minorities, the Navy has to pay attention to diversity. Another compelling reason is that the Navy's strategic imperative has evolved over time to include preventing wars, not just winning wars. This approach involves engaging in humanitarian assistance, disaster relief, and building strong maritime partners around the world, all of which benefit from a diverse naval force. For instance, after the Indonesian tsunami in late December 2004, a Navy hospital ship was relocated to that region. During that event, the public opinion of the United States changed in a few short months from 70 percent not liking to 70 percent supporting. Since that time, the hospital ship has been to South America and other places. "We see America's Navy as a force for good around the globe."

At the Naval Academy, where the military branch's future leaders are educated, applications have increased 57 percent among Black, Latino, and other traditionally underrepresented applicants. The Naval Academy Superintendent Vice Admiral says that, although there's no specific numerical diversity goal, it makes sense to have representation close to the demographics of the country. The faculty/staff at the Naval Academy have seen changes with the new generation of "millennial" midshipmen (the "students" at the Naval Academy) and have adjusted their methods and approaches to accommodate those changes. "How we reach out to them is different. We just have to be smart enough to understand that."

Discussion Questions

1. How are population trends affecting the U.S. Navy's education and operations? What might the organization have to do to adapt to these trends beyond what they're already doing?
2. What challenges might the Navy face in adapting to a more diverse student body at the Naval Academy?
3. Just like the dilemma that businesses face in retaining diverse employees, the Navy has to ensure that once its workforce is trained that those individuals stay with the organization. What can the Navy do to assure this?
4. Would mentoring or employee resource groups be appropriate for a military organization? Explain. How might a mentoring program or employee resource groups be implemented in the Navy?

CASE APPLICATION 2

Women in Management at Deutsche Telekom: Part 2

Continuing the story from our chapter-opening Manager's Dilemma, what is Deutsche Telekom doing to achieve its goal of bringing more women into management positions? One action the company is taking is to increase and improve recruiting of female university graduates. In fact, the company has committed to having at least 30 percent of the places in executive development programs held by women.

Other steps being taken by the company revolve around the work environment and work–family issues. The company plans to expand its parental-leave programs and introduce more flexible working hours for managers. Right now, fewer than 1 percent of the company's managers work part time. In addition, the company plans to double the number of available places in company child-care programs.

Discussion Questions

1. What do you think of this "quota" approach that Deutsche Telekom is pursuing? What benefits and drawbacks does such an approach have?
2. What issues might Deutsche Telekom face in recruiting female university graduates? How could they address these issues?
3. What issues might the company face in introducing changes in work–family programs? Again, how could they address these issues?
4. What workplace diversity initiatives discussed in the chapter might be appropriate for Deutsche Telekom? What would be involved in implementing these initiatives?

5 CHAPTER

Let's Get Real:

You'll be hearing more from this real manager throughout the chapter.

Meet the Manager

John Emerman

Owner
The Stone Oven Bakery & Café
Cleveland, OH

MY JOB:

I am the owner/manager and founder of The Stone Oven Bakery & Café. I'm involved in every aspect of the business including bookkeeping, marketing/advertising, menu design, hiring/firing, scheduling employees, maintaining and repairing equipment and the furnishings in the store, and serving customers when necessary.

BEST PART OF MY JOB:

The creative aspects. I designed the interior of my store, decided what items to serve, laid out equipment, and so on. Because I wear every hat imaginable, I never get bored. I have an endless list of projects to work on. For example, last month I purchased a new cash register system that I had to program. It was a great learning experience and a creative process—choosing key colors and placement for optimal efficiency.

The other thing I love about the business is the pace. When we have a line to the door at lunchtime I'm a master at weaving quickly through the crowd to bus tables, restock napkins, and expediting orders. It's a real rush.

Managing Social Responsibility *and* Ethics

LEARNING OUTCOMES

5.1 **Discuss** what it means to be socially responsible and what factors influence that decision. *page 124*

5.2 **Explain** green management and how organizations can go green. *page 127*

5.3 **Discuss** the factors that lead to ethical and unethical behavior. *page 129*

5.4 **Describe** management's role in encouraging ethical behavior. *page 135*

5.5 **Discuss** current social responsibility and ethics issues. *page 139*

WORST PART OF MY JOB:

Owning a business that operates 360 days per year means you are "on-call" every day. Although I only work a couple of hours each weekend day, I may get a call at any hour of the day or night with a problem that needs my immediate attention (one of the delivery vans broke down, the credit card machines stopped working, the walk-in cooler is at 50 degrees, and so on). I always carry the work schedule on my person in case someone doesn't show up and I need to find a replacement.

Because restaurant workers are typically paid less than in other businesses, turnover can be high. It is a continuing effort to find and try to keep workers who have the right combination of brains, personality (sense of humor), and work ethic.

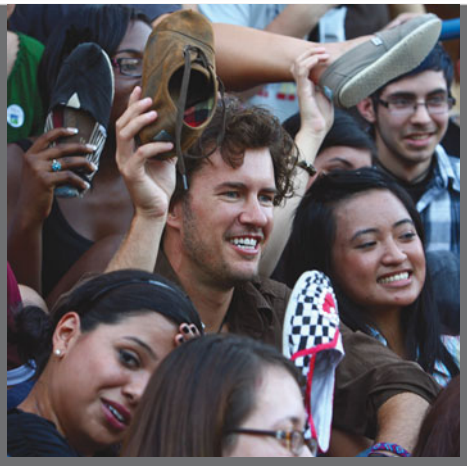
BEST MANAGEMENT ADVICE EVER RECEIVED:

"Don't go into the restaurant business—it's the hardest." I didn't listen.

A Manager's Dilemma

It's an incredibly simple but potentially world-changing idea.[1] For each pair of shoes sold, a pair is donated to a child in need. That's the business model followed by TOMS Shoes. During a visit to Argentina in 2006 as a contestant on the CBS reality show *The Amazing Race*, Blake Mycoskie, founder of TOMS, "saw lots of kids with no shoes who were suffering from injuries to their feet." Just think what it would be like to be barefoot, not by choice, but from lack of availability and ability to own a pair. He was so moved by the experience that he wanted to do something. That something is what TOMS does now by blending charity with commerce. (The name TOMS is actually short for a "better tomorrow.") And a better tomorrow is what Blake wanted to provide to shoeless children around the world.

Those shoe donations have been central to the success of the TOMS brand, which is popular among tweens, teens, and twenty-somethings. And 400,000 pairs of shoes had been donated as of early 2010. Put yourself in Blake's position. How can he balance being socially responsible *and* being focused on profits?



What Would You Do?

Deciding how socially responsible an organization needs to be is just one example of the complicated types of ethical and social responsibility issues that managers, such as Blake Mycoskie, may have to cope with as they plan, organize, lead, and control. As managers manage, these issues can and do influence their actions.

LEARNING OUTCOME 5.1

Discuss what it means to be socially responsible and what factors influence that decision.

What Is Social Responsibility?

By using digital technology and file-sharing Web sites, music and video users all over the world often obtain and share many of their favorite recordings for free. Large global corporations lower their costs by outsourcing to countries where human rights are not a high priority and justify it by saying they're bringing in jobs and helping strengthen the local economies. Businesses facing a drastically changed economic environment offer employees reduced hours and early retirement packages. Are these companies being socially responsible? Managers regularly face decisions that have a dimension of social responsibility in areas such as employee relations, philanthropy, pricing, resource conservation, product quality and safety, and doing business in countries that devalue human rights. What does it mean to be socially responsible?

From Obligations to Responsiveness to Responsibility

The concept of *social responsibility* has been described in different ways. For instance, it's been called "profit making only," "going beyond profit making," "any discretionary corporate activity intended to further social welfare," and "improving social or environmental conditions."[2] We can understand it better if we first compare it to two similar concepts: social obligation and social responsiveness.[3] **Social obligation** is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. The organization does what it's obligated to do and nothing more. This idea reflects the **classical view** of social responsibility, which says that management's only social responsibility is to maximize profits. The most outspoken advocate of this approach is economist and Nobel laureate Milton Friedman. He argued that managers' primary responsibility is to operate the business in the best interests of the stockholders, whose primary concerns are financial.[4] He also argued that when managers decide to spend the organization's resources for "social good," they add to the costs of doing business, which have to be passed on to consumers through higher prices or absorbed by stockholders through smaller dividends. You need to understand that Friedman doesn't say that organizations shouldn't be socially responsible. But his interpretation of social responsibility is to maximize profits for stockholders.

The other two concepts—social responsiveness and social responsibility—reflect the **socioeconomic view**, which says that managers' social responsibilities go beyond making profits to include protecting and improving society's welfare. This view is based on the belief that corporations are *not* independent entities responsible only to stockholders, but have an obligation to the larger society. Organizations around the world have embraced this view as shown by a survey of global executives in which 84 percent said that companies must balance obligations to shareholders with obligations to the public good.[5] But how do these two concepts differ?

Social responsiveness is when a company engages in social actions in response to some popular social need. Managers are guided by social norms and values and make practical, market-oriented decisions about their actions.[6] For instance, Ford Motor Company became the first automaker to endorse a federal ban on sending text messages while driving. A company spokesperson said that, "The most complete and most recent research shows that activity that draws drivers' eyes away from the road for an extended period while driving, such as text messaging, substantially increases the risk of accidents."[7] By supporting this ban, company managers "responded" to what they felt was an important social need. When the disastrous earthquake hit Haiti in January 2010, many companies responded to the immense needs in that region. For instance, UPS has a company-wide policy that urges employees to volunteer during natural disasters and other crises. In support of this policy, UPS maintains a 20-person Logistics Emergency Team in Asia, Europe, and the Americas that's trained in humanitarian relief.[8]

A socially *responsible* organization views things differently. It goes beyond what it's obligated to do or chooses to do because of some popular social need and does what it can to help improve society because it's the right thing to do. We define **social responsibility** as a business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.[9] Our definition assumes that a business obeys the law and cares for its stockholders, but adds an ethical imperative to do those things that make society better and not to do those that make it worse. A socially responsible organization does what is right because it feels it has an ethical responsibility to do so. For example, Abt Electronics in Glenview, Illinois, would be described as socially responsible according to our definition. As one of the largest single-store electronics retailers in the United States, it responded to soaring energy costs and environmental concerns by shutting off lights more frequently and reducing air conditioning and heating. However, an Abt family member said, "These actions weren't just about costs, but about doing the right thing. We don't do everything just because of money."[10]

So, how should we view an organization's social actions? A U.S. business that meets federal pollution control standards or that doesn't discriminate against employees over the age of 40 in job promotion decisions is meeting its social obligation because laws mandate these actions. However, when it provides on-site child-care facilities for employees or packages products using recycled paper, it's being socially responsive. Why? Working parents and environmentalists have voiced these social concerns and demanded such actions.

For many businesses, their social actions are better viewed as being socially responsive than socially responsible (at least according to our definition). However, such actions are still good for society. For example, Walmart sponsored a program to address a serious social problem—hunger. Customers donated money to America's Second Harvest by purchasing puzzle pieces and Walmart matched the first $5 million raised. As part of this program, the company ran advertisements in major newspapers showing the word H_NGER and the tag line, "The problem can't be solved without You."[11]

social obligation
When a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities

classical view
The view that management's only social responsibility is to maximize profits

socioeconomic view
The view that management's social responsibility goes beyond making profits to include protecting and improving society's welfare

social responsiveness
When a firm engages in social actions in response to some popular social need

social responsibility
A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society

Should Organizations Be Socially Involved?

Other than meeting their social obligations (which they *must* do), should organizations be socially involved? One way to look at this question is by examining arguments for and against social involvement. Several points are outlined in Exhibit 5-1.[12]

Numerous studies have examined whether social involvement affects a company's economic performance.[13] Although most found a small positive relationship, no generalizable conclusions can be made because these studies have shown that relationship is affected by various contextual factors such as firm size, industry, economic conditions, and regulatory environment.[14] Another concern was causation. If a study showed that social involvement and economic performance were positively related, this correlation didn't necessarily mean that social involvement *caused* higher economic performance. It could simply mean that high profits afforded companies the "luxury" of being socially involved.[15] Such methodological concerns can't be taken lightly. In fact, one study found that if the flawed empirical analyses in these studies were "corrected," social responsibility had a neutral impact on a company's financial performance.[16] Another found that participating in social issues not related to the organization's primary stakeholders was negatively associated with shareholder value.[17] A re-analysis of several studies concluded that managers can afford to be (and should be) socially responsible.[18]

EXHIBIT 5-1
Arguments For and Against Social Responsibility

For	Against
Public expectations Public opinion now supports businesses pursuing economic and social goals.	**Violation of profit maximization** Business is being socially responsible only when it pursues its economic interests.
Long-run profits Socially responsible companies tend to have more secure long-run profits.	**Dilution of purpose** Pursuing social goals dilutes business's primary purpose—economic productivity.
Ethical obligation Businesses should be socially responsible because responsible actions are the right thing to do.	**Costs** Many socially responsible actions do not cover their costs and someone must pay those costs.
Public image Businesses can create a favorable public image by pursuing social goals.	**Too much power** Businesses have a lot of power already and if they pursue social goals they will have even more.
Better environment Business involvement can help solve difficult social problems.	**Lack of skills** Business leaders lack the necessary skills to address social issues.
Discouragement of further governmental regulation By becoming socially responsible, businesses can expect less government regulation.	**Lack of accountability** There are no direct lines of accountability for social actions.
Balance of responsibility and power Businesses have a lot of power and an equally large amount of responsibility is needed to balance against that power.	
Stockholder interests Social responsibility will improve a business's stock price in the long run.	
Possession of resources Businesses have the resources to support public and charitable projects that need assistance.	
Superiority of prevention over cures Businesses should address social problems before they become serious and costly to correct.	

Another way to view social involvement and economic performance is by looking at socially responsible investing (SRI) funds, which provide a way for individual investors to support socially responsible companies. (You can find a list of SRI funds at [www.socialfunds.com].) Typically, these funds use some type of **social screening**; that is, they apply social and environmental criteria to investment decisions. For instance, SRI funds usually will not invest in companies that are involved in liquor, gambling, tobacco, nuclear power, weapons, price fixing, fraud, or in companies that have poor product safety, employee relations, and environmental track records. The number of socially screened mutual funds has grown from 55 to 260 and assets in these funds have grown to more than $2.7 trillion—about 11 percent of total assets in managed funds in the United States.[19] But more important than the total amount invested in these funds is that the Social Investment Forum reports that the performance of most SRI funds is comparable to that of non-SRI funds.[20]

So, what can we conclude about social involvement and economic performance? It appears that a company's social actions *don't hurt* its economic performance. Given political and societal pressures to be socially involved, managers probably need to take social issues and goals into consideration as they plan, organize, lead, and control.

Green Management and Sustainability

5.2

LEARNING OUTCOME
Explain green management and how organizations can go green.

Coca-Cola, the world's largest soft drink company, announced that 100 percent of its new vending machines and coolers would be hydrofluorocarbon-free (HFC-free) by 2015. This initiative alone would have the same effect on global carbon emissions as taking 11 million cars off the road for a single year.[21] The Fairmont Hotel chain has generated a lot of buzz over its decision to set up rooftop beehives to try and help strengthen the population of honeybees, which have been mysteriously abandoning their hives and dying off by the millions worldwide. This Colony Collapse Disorder could have potentially disastrous consequences since one-third of the food we eat comes from plants that depend on bee pollination. At Toronto's Fairmont Royal York, six hives are home to some 360,000 bees that forage in and around the city *and* produce a supply of award-winning honey.[22] In 2004, top executives at General Electric Company voted against CEO Jeffrey Immelt's plan for a green business initiative. However, Immelt refused to take "no" for an answer and today that initiative, called Ecomagination, is one of the most widely recognized corporate green programs. It led to $100 million in cost savings and reduced the company's greenhouse emissions by 30 percent. And the program fostered the development of 80 new products and services that generate some $17 billion in annual revenue. Immelt said, "Going green has been 10 times better than I ever imagined."[23] Being green is in!

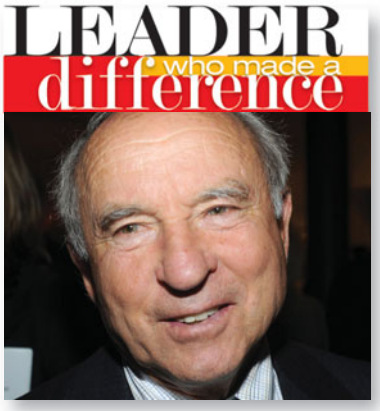
Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions. Although some groups were concerned with conserving natural resources, about the only reference to saving the environment was the ubiquitous printed request "Please Don't Litter." However, a number of environmental disasters brought a new spirit of environmentalism to individuals, groups, and organizations. Increasingly, managers have begun to consider the impact of their organization on the natural environment, which we call **green management**. What do managers need to know about going green?

How Organizations Go Green

Managers and organizations can do many things to protect and preserve the natural environment.[24] Some do no more than what is required by law—that is, they fulfill their social obligation. However, others have radically changed their products and production processes. For instance, Fiji Water is using renewable energy sources, preserving forests,

social screening
Applying social criteria (screens) to investment decisions

green management
Managers consider the impact of their organization on the natural environment



Yvon Chouinard is a self-taught blacksmith who, in 1957, started crafting mountain climbing pitons used by himself and other climbing enthusiasts as anchors on risky climbs.[26] His hardware became so popular that he would go on to found the outdoor-clothing company Patagonia. As his company grew, Chouinard realized that everything his company did had an effect—mostly negative—on the environment. Today, he defines the company's mission in eco-driven terms: "To use business to inspire and implement solutions to the environmental crisis." Chouinard has put environmental activism at the forefront of his company. Since 1985, Patagonia has donated 1 percent of its annual sales to grassroots environmental groups and has gotten more than 1,200 companies to follow its lead as part of its "1% for the Planet" group. He recognizes that "every product, no matter how much thought goes into it, has a destructive impact on Earth." But nonetheless, he keeps doing what he does because "it's the right thing to do."

and conserving water. Carpet-maker Mohawk Industries uses recycled plastic containers to produce fiber used in its carpets. Google and Intel initiated an effort to get computer makers and customers to adopt technologies that reduce energy consumption. Paris-based TOTAL, SA, one of the world's largest integrated oil companies, is going green by implementing tough new rules on oil tanker safety and working with groups such as Global Witness and Greenpeace. UPS, the world's largest package delivery company, has done several things—from retrofitting its aircraft with advanced technology and fuel-efficient engines to developing a computer network that efficiently dispatches its fleet of brown trucks to using alternative fuel to run those trucks. Although interesting, these examples don't tell us much about how organizations go green. One model uses the terms *shades of green* to describe the different environmental approaches that organizations may take.[25] (See Exhibit 5-2.)

The first approach, the *legal (or light green) approach,* is simply doing what is required legally. In this approach, which illustrates social obligation, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations without legal challenge and that's the extent of their being green.

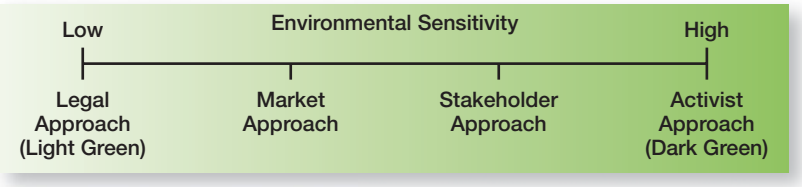
As an organization becomes more sensitive to environmental issues, it may adopt the *market approach*, and respond to environmental preferences of customers. Whatever customers demand in terms of environmentally friendly products will be what the organization provides. For example, DuPont developed a new type of herbicide that helped farmers around the world reduce their annual use of chemicals by more than 45 million pounds. By developing this product, the company was responding to the demands of its customers (farmers) who wanted to minimize the use of chemicals on their crops. This is a good example of social responsiveness, as is the next approach.

In the *stakeholder approach*, an organization works to meet the environmental demands of multiple stakeholders such as employees, suppliers, or community. For instance, Hewlett-Packard has several corporate environmental programs in place for its supply chain (suppliers), product design and product recycling (customers and society), and work operations (employees and community).

Finally, if an organization pursues an *activist* (*or dark green*) *approach*, it looks for ways to protect the earth's natural resources. The activist approach reflects the highest degree of environmental sensitivity and illustrates social responsibility. For example, Belgian company Ecover produces ecological cleaning products in a near-zero-emissions factory. This factory (the world's first ecological one) is an engineering marvel with a huge grass roof that keeps things cool in summer and warm in winter and a water treatment system that runs on wind and solar energy. The company chose to build this facility because of its deep commitment to the environment.

EXHIBIT 5-2

Green Approaches



Source: Based on R. E. Freeman, J. Pierce, and R. Dodd, *Shades of Green: Business Ethics and the Environment* (New York: Oxford University Press, 1995).

At New Zealand's largest wind farm, these wind turbines made by Siemens Windpower generate clean electricity for 100,000 households. One of the most sustainable corporations in the world, Germany-based Siemens pursues an activist approach to the environment from its factories and buildings that consume only small amounts of power to its power plants that generate electricity from the sun. As a good corporate citizen and as a business enterprise, Siemens management and employees are committed to provide products, systems, and technologies that protect the environment, foster human health, and help conserve natural resources.

Evaluating Green Management Actions

As businesses become "greener," they often release detailed reports on their environmental performance. More than 1,300 companies around the globe voluntarily report their efforts in promoting environmental sustainability using the guidelines developed by the Global Reporting Initiative (GRI). These reports, which can be found on the GRI Web site [www.globalreporting.org], describe the numerous green actions of these organizations.

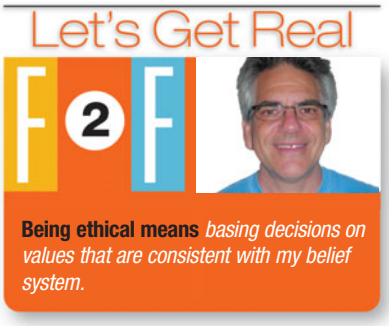
Another way that organizations show their commitment to being green is through pursuing standards developed by the nongovernmental International Organization for Standardization (ISO). Although ISO has developed more than 18,000 international standards, it's probably best known for its ISO 9000 (quality management) and ISO 14000 (environmental management) standards. Organizations that want to become ISO 14000 compliant must develop a total management system for meeting environmental challenges. In other words, it must minimize the effects of its activities on the environment and continually improve its environmental performance. If an organization can meet these standards, it can state that it's ISO 14000 compliant, an accomplishment that organizations in 155 countries have achieved.

One final way to evaluate a company's green actions is to use the Global 100 list of the most sustainable corporations in the world [www.global100.org].[27] To be named to this list, which is announced each year at the renowned World Economic Forum in Davos, Switzerland, a company has displayed a superior ability to effectively manage environmental and social factors. In 2010, the United Kingdom led the list with 21 Global 100 companies. The United States followed with 12, and both Australia and Canada had 9 companies on the list. Some companies on the 2010 list included Siemens (Germany), Pearson PLC (U.K.), Westpac Banking Corp. (Australia), Encana Corp. (Canada), and Starbucks (U.S.).

Managers and Ethical Behavior

5.3 LEARNING OUTCOME
Discuss the factors that lead to ethical and unethical behavior.

One hundred fifty years. That was the maximum prison sentence handed to financier Bernard Madoff, who stole billions of dollars from his clients, by a U.S. district judge who called his crimes "evil." In Britain, which has been characterized by some critics as a "nanny state because of its purported high level of social control and surveillance," a controversy is brewing over the monitoring of garbage cans. Many local governments have installed monitoring chips in municipally distributed trash bans. These chips match cans with owners and can be used to track the weight of the bins, leading some critics to fear that the country is moving to a pay-as-you go system, which they believe will discriminate against large families. A government report says that Iceland, hit hard by both the global economic meltdown and a



pesky volcano, was "victimized by politicians, bankers, and regulators who engaged in acts of extreme negligence."[28] When you hear about such behaviors—especially after the high-profile financial misconduct at companies such as Enron, Worldcom, Lehman Brothers, and others—you might conclude that businesses aren't ethical. Although that's not the case, managers—at all levels, in all areas, in all sizes, and in all kinds of organizations—do face ethical issues and dilemmas. For instance, is it ethical for a sales representative to bribe a purchasing agent as an inducement to buy? Would it make a difference if the bribe came out of the sales rep's commission? Is it ethical for someone to use a company car for private use? How about using company e-mail for personal correspondence or using the company phone to make personal phone calls? What if you managed an employee who worked all weekend on an emergency situation and you told him to take off two days sometime later and mark it down as "sick days" because your company had a clear policy that overtime would not be compensated for any reason?[29] Would that be okay? How will you handle such situations? As managers plan, organize, lead, and control, they must consider ethical dimensions.

What do we mean by **ethics**? We're defining it as the principles, values, and beliefs that define right and wrong decisions and behavior.[30] Many decisions that managers make require them to consider both the process and who's affected by the result.[31] To better understand the ethical issues involved in such decisions, let's look at the factors that determine whether a person acts ethically or unethically.

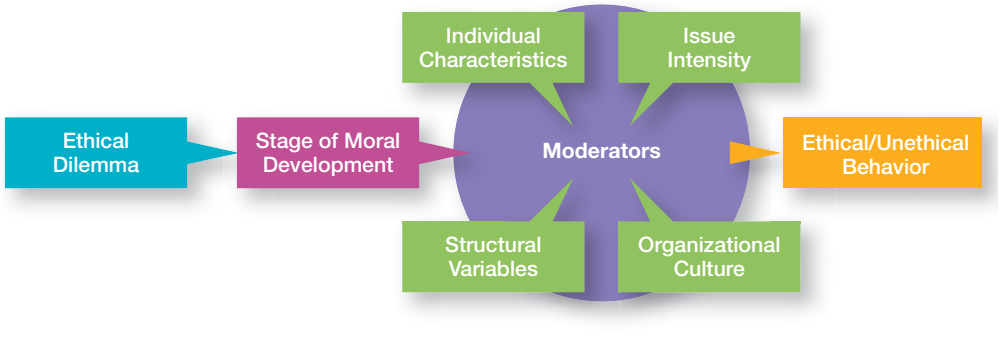
Factors That Determine Ethical and Unethical Behavior

Whether someone behaves ethically or unethically when faced with an ethical dilemma is influenced by several things: his or her stage of moral development and other moderating variables including individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue. (See Exhibit 5-3.) People who lack a strong moral sense are much less likely to do the wrong things if they're constrained by rules, policies, job descriptions, or strong cultural norms that disapprove of such behaviors. Conversely, intensely moral individuals can be corrupted by an organizational structure and culture that permits or encourages unethical practices. Let's look more closely at these factors.

STAGE OF MORAL DEVELOPMENT. Research divides moral development into three levels, each having two stages.[32] At each successive stage, an individual's moral judgment becomes less dependent on outside influences and more internalized.

At the first level, the *preconventional* level, a person's choice between right or wrong is based on personal consequences from outside sources, such as physical punishment, reward, or exchange of favors. At the second level, the *conventional* level, ethical decisions rely on maintaining expected standards and living up to the expectations of others. At the *principled* level, individuals define moral values apart from the authority of the groups to which they belong or society in general. The three levels and six stages are described in Exhibit 5-4.

EXHIBIT 5-3
Factors that Determine Ethical and Unethical Behavior



Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law
	5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed
	3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest
	1. Sticking to rules to avoid physical punishment

EXHIBIT 5-4

Stages of Moral Development

Source: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.), *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

What can we conclude about moral development?[33] First, people proceed through the six stages sequentially. Second, there is no guarantee of continued moral development. Third, the majority of adults are at Stage 4: They're limited to obeying the rules and will be inclined to behave ethically, although for different reasons. A manager at stage 3 is likely to make decisions based on peer approval; a manager at stage 4 will try to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a stage 5 manager is likely to challenge organizational practices that he or she believes to be wrong.

INDIVIDUAL CHARACTERISTICS. Two individual characteristics—values and personality—play a role in determining whether a person behaves ethically. Each person comes to an organization with a relatively entrenched set of personal **values**, which represent basic convictions about what is right and wrong. Our values develop from a young age based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.[34] Although *values* and *stage of moral development* may seem similar, they're not. Values are broad and cover a wide range of issues; the stage of moral development is a measure of independence from outside influences.

Two personality variables have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. **Ego strength** measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions. That is, individuals high in ego strength are more likely to do what they think is right and be more consistent in their moral judgments and actions than those with low ego strength.

Locus of control is the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus believe what happens to them is due to luck or chance. They're less likely to take personal responsibility for the consequences of their behavior and more likely to rely on external forces.[35]

STRUCTURAL VARIABLES. An organization's structural design can influence whether employees behave ethically. Those structures that minimize ambiguity and uncertainty with

ethics
Principles, values, and beliefs that define what is right and wrong behavior

values
Basic convictions about what is right and wrong

ego strength
A personality measure of the strength of a person's convictions

locus of control
A personality attribute that measures the degree to which people believe they control their own fate

by the numbers[39]

52 percent of people said they would lounge around the house if they took a sick day when they weren't really sick.

75 percent of employers said that when assessing applicants, they look for the ability to connect choice and actions to ethical decisions.

68 percent of companies said their focus on green initiatives was not going to change during 2010.

53 percent of employees don't think their boss is honest.

8 percent of employees feel pressured to commit an ethics violation at work.

90 percent of job applicants said they would gravitate toward a company perceived to be ethically and socially responsible.

46 percent of Gen Y'ers said they would forgo higher pay or a promotion to work for an organization with a good reputation.

Let's Get Real

My company's values include
supporting local nonprofit organizations and groups by donating leftover food and gift certificates.

formal rules and regulations and those that continuously remind employees of what is ethical are more likely to encourage ethical behavior. Other structural variables that influence ethical choices include goals, performance appraisal systems, and reward allocation procedures.

Although many organizations use goals to guide and motivate employees, those goals can create some unexpected problems. One study found that people who don't reach set goals are more likely to engage in unethical behavior, even if they do or don't have economic incentives to do so. The researchers concluded that "goal setting can lead to unethical behavior."[36] Examples of such behaviors abound—from companies shipping unfinished products just to reach sales goals or "managing earnings" to meet financial analysts' expectations, to schools excluding certain groups of students when reporting standardized test scores to make their "pass" rate look better.[37]

An organization's performance appraisal system also can influence ethical behavior. Some systems focus exclusively on outcomes, while others evaluate means as well as ends. When employees are evaluated only on outcomes, they may be pressured to do whatever is necessary to look good on the outcomes, and not be concerned with how they got those results. Research suggests that "success may serve to excuse unethical behaviors."[38] The danger of such thinking is that if managers are more lenient in correcting unethical behaviors of successful employees, other employees will model their behavior on what they see.

Closely related to the organization's appraisal system is how rewards are allocated. The more that rewards or punishment depend on specific goal outcomes, the more employees are pressured to do whatever they must to reach those goals, perhaps to the point of compromising their ethical standards.

ORGANIZATION'S CULTURE. As Exhibit 5-3 showed, the content and strength of an organization's culture also influence ethical behavior.[40] We learned in Chapter 2 that an organization's culture consists of the shared organizational values. These values reflect what the organization stands for and what it believes in as well as create an environment that influences employee behavior ethically or unethically. When it comes to ethical behavior, a culture most likely to encourage high ethical standards is one that's high in risk tolerance, control, and conflict tolerance. Employees in such a culture are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable.

Because shared values can be powerful influences, many organizations are using **values-based management**, in which the organization's values guide employees in the way they do their jobs. For instance, Timberland is an example of a company using values-based management. With a simple statement, "Make It Better," employees at Timberland know what's expected and valued; that is, find ways to "make it better"—whether it's creating quality products for customers, performing community service activities, designing employee training programs, or figuring out ways to make the company's packaging more environmentally friendly. As CEO Jeffrey Swartz says on the company's Web site, "Everything we do at Timberland grows out of our relentless pursuit to find a way to make it better." At Corning, one of the core values guiding employee behavior is integrity. Employees are expected to work in ways that are honest, decent, and fair. Timberland and Corning aren't alone in their use of values-based management. A survey of global companies found that a large number (more than 89%) said they had a written corporate values statement.[41] This survey also found that most of the companies believed that their values influenced relationships and reputation, the top-performing companies consciously connected values with the way employees did their work, and top managers were important to reinforcing the importance of the values throughout the organization.

Thus, an organization's managers do play an important role here. They're responsible for creating an environment that encourages employees to embrace the culture and the desired values as they do their jobs. In fact, research shows that the behavior of managers is the single most important influence on an individual's decision to act ethically or unethically.[42] People look to see what those in authority are doing and use that as a benchmark for acceptable practices and expectations.

Finally, as we discussed in Chapter 2, a strong culture exerts more influence on employees than a weak one. If a culture is strong and supports high ethical standards, it has a powerful and positive influence on the decision to act ethically or unethically. For example, IBM has a strong culture that has long stressed ethical dealings with customers, employees, business partners, and communities.[43] To reinforce the importance of ethical behaviors, the company developed an explicitly detailed set of guidelines for business conduct and ethics. And the penalty for violating the guidelines: disciplinary actions including dismissal. IBM's managers continually reinforce the importance of ethical behavior and reinforce the fact that a person's actions and decisions are important to the way the organization is viewed.

ISSUE INTENSITY. A student who would never consider breaking into an instructor's office to steal an accounting exam doesn't think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam. Similarly, a manager might think nothing about taking home a few office supplies yet be highly concerned about the possible embezzlement of company funds. These examples illustrate the final factor that influences ethical behavior: the intensity of the ethical issue itself.[44]

As Exhibit 5-5 shows, six characteristics determine issue intensity or how important an ethical issue is to an individual: greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victim(s), and concentration of effect. These factors suggest that the larger the number of people harmed, the more agreement that the action is wrong, the greater the likelihood that the action will cause harm, the more immediately that the consequences of the action will be felt, the closer the person feels to the victim(s), and the more concentrated the effect of the action on the victim(s), the greater the issue intensity or importance. When an ethical issue is important, employees are more likely to behave ethically.

Ethics in an International Context

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical

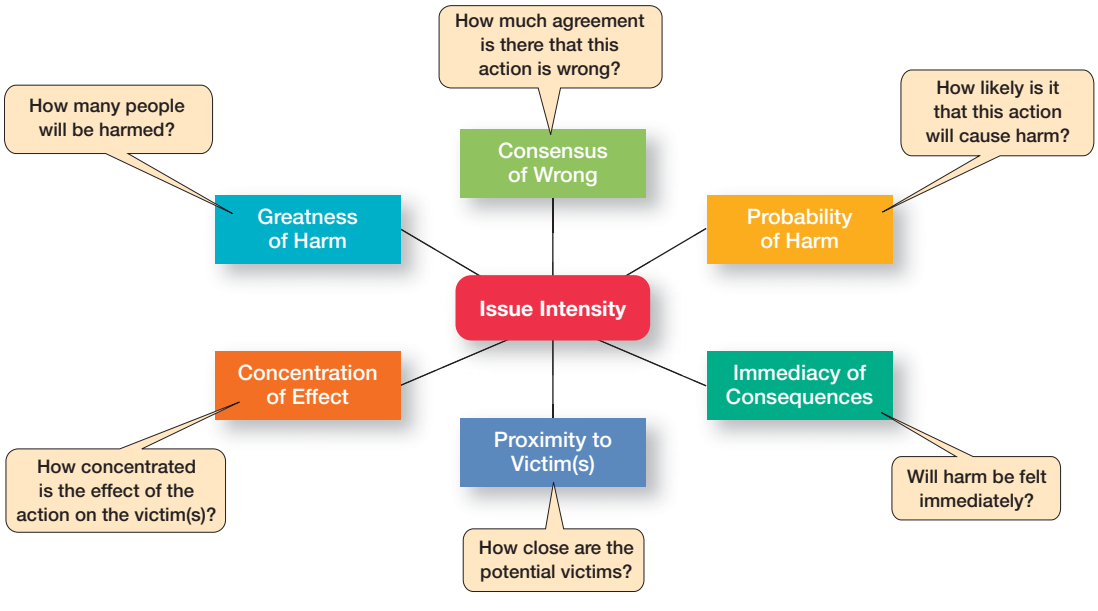


EXHIBIT 5-5
Issue Intensity

values-based management
The organization's values guide employees in the way they do their jobs

behavior.[45] For example, the manager of a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract. Although this business practice is acceptable in Mexico, it's unethical (and illegal) in the United States.

Should Coca-Cola employees in Saudi Arabia adhere to U.S. ethical standards, or should they follow local standards of acceptable behavior? If Airbus (a European company) pays a "broker's fee" to an intermediary to get a major contract with a Middle Eastern airline, should Boeing be restricted from doing the same because such practices are considered improper in the United States? (Note: In the United Kingdom, the Law Commission, a governmental advisory body, has said that bribing officials in foreign countries should be a criminal offense. It said that claims of "it's local custom" should not be a reason for allowing it.[46]) Recently, British defense giant BAE, which has been the target of various bribery and corruption allegations, was ordered to "submit to the supervision of an ethics monitor and pay nearly $500 million to resolve the corruption allegations."[47]

In the case of payments to influence foreign officials or politicians, U.S. mangers are guided by the Foreign Corrupt Practices Act (FCPA), which makes it illegal to knowingly corrupt a foreign official. However, even this law doesn't always reduce ethical dilemmas to black and white. In some countries, government bureaucrat salaries are low because custom dictates that they receive small payments from those they serve. Payoffs to these bureaucrats "grease the machinery" and ensure that things get done. The FCPA does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical *when* such payoffs are an accepted part of doing business in that country. Any action other than this is illegal. In 2009, the U.S. Department of Justice brought 11 FCPA enforcement actions against corporations and 33 against individuals.[48]

It's important for individual managers working in foreign cultures to recognize the social, cultural, and political-legal influences on what is appropriate and acceptable behavior.[49] And international businesses must clarify their ethical guidelines so that employees know what's expected of them while working in a foreign location, which adds another dimension to making ethical judgments.

Another guide to being ethical in international business is the Global Compact, which is a document created by the United Nations outlining principles for doing business globally in the areas of human rights, labor, the environment, and anticorruption. (See Exhibit 5-6.)

EXHIBIT 5-6

Ten Principles of the UN Global Compact

Human Rights	
Principle 1:	Support and respect the protection of international human rights within their sphere of influence.
Principle 2:	Make sure business corporations are not complicit in human rights abuses.
Labor Standards	
Principle 3:	Freedom of association and the effective recognition of the right to collective bargaining.
Principle 4:	The elimination of all forms of forced and compulsory labor.
Principle 5:	The effective abolition of child labor.
Principle 6:	The elimination of discrimination in respect to employment and occupation.
Environment	
Principle 7:	Support a precautionary approach to environmental challenges.
Principle 8:	Undertake initiatives to promote greater environmental responsibility.
Principle 9:	Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	
Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Courtesy of UN Global Compact.

More than 7,700 corporate participants and stakeholders from over 130 countries have signed the Compact, making it the world's largest voluntary corporate citizenship initiative.[50] The goal of the Compact is a more sustainable and inclusive global economy. Organizations making this commitment do so because they believe that the world business community plays a significant role in improving economic and social conditions. In addition, the Organization for Economic Co-operation and Development (OECD) has made fighting bribery and corruption in international business a high priority. The centerpiece of its efforts is the Anti-Bribery Convention (or set of rules and guidelines), which was the first global instrument to combat corruption in cross-border business deals. To date, significant gains have been made in fighting corruption in the 38 countries that have ratified it.[51]

Encouraging Ethical Behavior

5.4 LEARNING OUTCOME
Describe management's role in encouraging ethical behavior.

At a Senate hearing exploring the accusations that Wall Street firm Goldman Sachs deceived its clients during the housing-market meltdown, Arizona senator John McCain said, "I don't know if Goldman has done anything illegal, but there's no doubt their behavior was unethical."[52] You have to wonder what the firm's managers were thinking or doing while such ethically questionable decisions and actions were occurring.

Managers can do a number of things if they're serious about encouraging ethical behaviors—hire employees with high ethical standards, establish codes of ethics, lead by example, and so forth. By themselves, such actions won't have much of an impact. But if an organization has a comprehensive ethics program in place, it can potentially improve an organization's ethical climate. The key variable, however, is *potentially.* There are no guarantees that a well-designed ethics program will lead to the desired outcome. Sometimes corporate ethics programs are little more than public relations gestures that do little to influence managers and employees. For instance, Sears had a long history of encouraging ethical business practices through its corporate Office of Ethics and Business Practices. However, its ethics programs didn't stop managers from illegally trying to collect payments from bankrupt charge account holders or from routinely deceiving automotive service center customers into thinking they needed unnecessary repairs. Even Enron, often referred to as the "poster child" of corporate wrongdoing, outlined values in its final annual report that most would consider ethical—communication, respect, integrity, and excellence. Yet the way top managers behaved didn't reflect those values at all.[53] Let's look at some specific ways that managers can encourage ethical behavior and create a comprehensive ethics program.

Employee Selection

The selection process (interviews, tests, background checks, and so forth) should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.[54] However, a carefully designed selection process isn't foolproof and, even under the best circumstances, individuals with questionable standards of right and wrong may be hired. Such an issue can be overcome if other ethics controls are in place.

Codes of Ethics and Decision Rules

George David, former CEO and chairman of Hartford, Connecticut-based United Technologies Corporation, believed in the power of a code of ethics. That's why UTC has always had one that was quite explicit and detailed. Employees know the behavioral expectations, especially when it comes to ethics. UBS AG, the Swiss bank, also has an explicit employee code crafted by CEO Oswald Grübel that bans staff from helping clients cheat on their taxes.[55] However, not all organizations have such explicit ethical guidelines.

Uncertainty about what is and is not ethical can be a problem for employees. A **code of ethics**, a formal statement of an organization's values and the ethical rules it expects employees to follow, is a popular choice for reducing that ambiguity. Research shows that 97 percent of organizations with more than 10,000 employees have a written code of ethics. Even in smaller organizations, nearly 93 percent have one.[56] And codes of ethics are becoming more popular globally. Research by the Institute for Global Ethics says that shared values such as honesty, fairness, respect, responsibility, and caring are pretty much universally embraced.[57] In addition, a survey of businesses in 22 countries found that 78 percent have formally stated ethics standards and codes of ethics; and more than 85 percent of *Fortune* Global 200 companies have a business code of ethics.[58]

What should a code of ethics look like? It should be specific enough to show employees the spirit in which they're supposed to do things yet loose enough to allow for freedom of judgment. A survey of companies' codes of ethics found their content tended to fall into three categories as shown in Exhibit 5-7.[59]

Unfortunately, codes of ethics may not work as well as we think they should. A survey of employees in U.S. businesses found that 49 percent of those surveyed had observed ethical or legal violations in the previous 12 months including such things as conflicts of interest,

EXHIBIT 5-7
Codes of Ethics

Cluster 1. Be a Dependable Organizational Citizen

1. Comply with safety, health, and security regulations.
2. Demonstrate courtesy, respect, honesty, and fairness.
3. Illegal drugs and alcohol at work are prohibited.
4. Manage personal finances well.
5. Exhibit good attendance and punctuality.
6. Follow directives of supervisors.
7. Do not use abusive language.
8. Dress in business attire.
9. Firearms at work are prohibited.

Cluster 2. Do Not Do Anything Unlawful or Improper That Will Harm the Organization

1. Conduct business in compliance with all laws.
2. Payments for unlawful purposes are prohibited.
3. Bribes are prohibited.
4. Avoid outside activities that impair duties.
5. Maintain confidentiality of records.
6. Comply with all antitrust and trade regulations.
7. Comply with all accounting rules and controls.
8. Do not use company property for personal benefit.
9. Employees are personally accountable for company funds.
10. Do not propagate false or misleading information.
11. Make decisions without regard for personal gain.

Cluster 3. Be Good to Customers

1. Convey true claims in product advertisements.
2. Perform assigned duties to the best of your ability.
3. Provide products and services of the highest quality.

Source: F. R. David, "An Empirical Study of Codes of Business Ethics: A Strategic Perspective," paper presented at the 48th Annual Academy of Management Conference, Anaheim, California, August 1988. Used with permission of Fred David.

Step 1: What is the **ethical dilemma**?
Step 2: Who are the **affected stakeholders**?
Step 3: What **personal**, **organizational**, and **external factors** are important in this decision?
Step 4: What are possible **alternatives**?
Step 5: What is my **decision** and how will I act on it?

EXHIBIT 5-8
A Process for Addressing Ethical Dilemmas

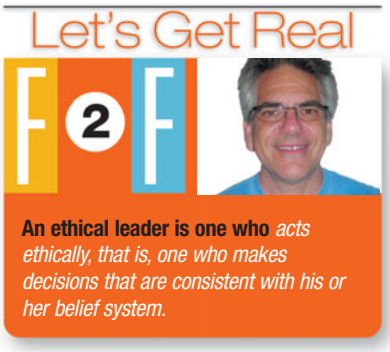
abusive or intimidating behavior, and lying to employees. And 37 percent of those employees didn't report observed misconduct.[60] Does this mean that codes of ethics shouldn't be developed? No. However, in doing so, managers should use these suggestions:[61]

1. Organizational leaders should model appropriate behavior and reward those who act ethically.
2. All managers should continually reaffirm the importance of the ethics code and consistently discipline those who break it.
3. The organization's stakeholders (employees, customers, and so forth) should be considered as an ethics code is developed or improved.
4. Managers should communicate and reinforce the ethics code regularly.
5. Managers should use the five-step process (see Exhibit 5-8) to guide employees when faced with ethical dilemmas.

Leadership

In 2007, Peter Löscher was hired as CEO of German company Siemens to clean up a global bribery scandal that cost the company a record-setting $1.34 billion in fines. His approach: "Stick to your principles. Have a clear ethical north. Be trusted and be the role model of your company . . . true leaders have a set of core values they publicly commit to and live by in good times and bad."[62] Doing business ethically requires a commitment from top managers. Why? Because they're the ones who uphold the shared values and set the cultural tone. They're role models in terms of both words and actions, though what they *do* is far more important than what they *say.* If top managers, for example, take company resources for their personal use, inflate their expense accounts, or give favored treatment to friends, they imply that such behavior is acceptable for all employees.

Top managers also set the tone by their reward and punishment practices. The choices of whom and what are rewarded with pay increases and promotions send a strong signal to employees. As we said earlier, when an employee is rewarded for achieving impressive results in an ethically questionable manner, it indicates to others that those ways are acceptable. When an employee does something unethical, managers must punish the offender and publicize the fact by making the outcome visible to everyone in the organization. This practice sends a message that doing wrong has a price and it's not in employees' best interests to act unethically!



Job Goals and Performance Appraisal

Employees in three Internal Revenue Service offices were found in the bathrooms flushing tax returns and other related documents down the toilets. When questioned, they openly admitted doing it, but offered an interesting explanation for their behavior. The employees' supervisors had been pressuring them to complete more work in less time. If the piles of tax returns weren't processed and moved off their desks more quickly, they were told their performance reviews and salary raises would be adversely affected. Frustrated by few resources

code of ethics
A formal statement of an organization's primary values and the ethical rules it expects its employees to follow

and an overworked computer system, the employees decided to "flush away" the paperwork on their desks. Although these employees knew what they did was wrong, it illustrates how powerful unrealistic goals and performance appraisals can be.[63] Under the stress of unrealistic goals, otherwise ethical employees may feel they have no choice but to do whatever is necessary to meet those goals. Also, goal achievement is usually a key issue in performance appraisal. If performance appraisals focus only on economic goals, ends will begin to justify means. To encourage ethical behavior, both ends *and* means should be evaluated. For example, a manager's annual review of employees might include a point-by-point evaluation of how their decisions measured up against the company's code of ethics as well as how well goals were met.

Ethics Training

More organizations are setting up seminars, workshops, and similar ethics training programs to encourage ethical behavior. Such training programs aren't without controversy as the primary concern is whether ethics can be taught. Critics stress that the effort is pointless because people establish their individual value systems when they're young. Proponents note, however, several studies have shown that values can be learned after early childhood. In addition, they cite evidence that shows that teaching ethical problem solving can make an actual difference in ethical behaviors;[64] that training has increased individuals' level of moral development;[65] and that, if nothing else, ethics training increases awareness of ethical issues in business.[66]

How can ethics be taught? Let's look at an example involving global defense contractor Lockheed Martin, one of the pioneers in the case-based approach to ethics training.[67] Lockheed Martin's employees take annual ethics training courses delivered by their managers. The main focus of these short courses is Lockheed Martin–specific case situations "chosen for their relevance to department or job-specific issues." In each department, employee teams review and discuss the cases and then apply an "Ethics Meter" to "rate whether the real-life decisions were ethical, unethical, or somewhere in between." For example, one of the possible ratings on the Ethics Meter, "On Thin Ice," is explained as "bordering on unethical and should raise a red flag." After the teams have applied their ratings, managers lead discussions about the ratings and examine "which of the company's core ethics principles were applied or ignored in the cases." In addition to its ethics training, Lockheed Martin has a widely used written code of ethics, an ethics helpline that employees can call for guidance on ethical issues, and ethics officers based in the company's various business units.

Cisco Systems' ethics training program teaches employees such as the software engineers in this photo how to deal with ethical problems they encounter every day. Based on its own risk analysis and designed to fit the company's corporate culture, the training parodies the *American Idol* TV show. The Web-based program shows cartoon contestants singing about various ethical workplace scenarios included in Cisco's Code of Business Conduct and then poses questions to employees as to which judge's answer they agree with. Employees can provide feedback, see how other employees respond, and view the official Cisco answer to help them learn how to make good ethical decisions that apply to their day-to-day jobs.

Independent Social Audits

The fear of being caught can be an important deterrent to unethical behavior. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase that likelihood. Such audits can be regular evaluations or they can occur randomly with no prior announcement. An effective ethics program probably needs both. To maintain integrity, auditors should be responsible to the company's board of directors and present their findings directly to the board. This arrangement gives the auditors clout and lessens the opportunity for retaliation from those being audited. Because the Sarbanes-Oxley Act holds businesses to more rigorous standards of financial disclosure and corporate governance, more organizations are finding the idea of independent social audits appealing. As the publisher of *Business Ethics* magazine stated, "The debate has shifted from *whether* to be ethical to *how* to be ethical."[68]

Protective Mechanisms

Employees who face ethical dilemmas need protective mechanisms so they can do what's right without fear of reprimand. An organization might designate ethical counselors for employees facing an ethics dilemma. These advisors also might advocate the ethically "right" alternatives. Other organizations have appointed ethics officers who design, direct, and modify the organization's ethics programs as needed.[69] The Ethics and Compliance Officer Association is the world's largest group of ethics and compliance practitioners with a total membership topping 1,100 (including more than half of the *Fortune* 100 companies) and covering several countries including, among others, the United States, Germany, India, Japan, and Canada.[70]

Social Responsibility and Ethics Issues in Today's World

5.5 LEARNING OUTCOME
Discuss current social responsibility and ethics issues.

Today's managers continue to face challenges in being socially responsible and ethical. Next we examine three current issues: managing ethical lapses and social irresponsibility, social entrepreneurship, and promoting positive social change.

Managing Ethical Lapses and Social Irresponsibility

Even after public outrage over the Enron-era misdeeds, irresponsible and unethical practices by managers in all kinds of organizations haven't gone away, as you've observed with some of the questionable behaviors that took place at financial services firms such as Goldman Sachs and Lehman Brothers. But what's more alarming is what's going on "in the trenches" in offices, warehouses, and stores. One survey reported that among 5,000 employees: 45 percent admitted falling asleep at work; 22 percent said they spread a rumor about a coworker; 18 percent said they snooped after hours; and 2 percent said they took credit for someone else's work.[71]

Unfortunately, it's not just at work that we see such behaviors. They're prevalent throughout society. Studies conducted by the Center for Academic Integrity showed that 26 percent of college and university business majors admitted to "serious cheating" on exams and 54 percent admitted to cheating on written assignments. But business students weren't the worst cheaters—that distinction belonged to journalism majors, of whom 27 percent said they had cheated.[72] And a survey by Students in Free Enterprise (SIFE) found that only 19 percent of students would report a classmate who cheated.[73] But even more frightening is what today's teenagers say is "acceptable." In a survey, 23 percent said they thought violence toward another person is acceptable on some level.[74] What do such statistics say about what managers may have to deal with in the future? It's not too far-fetched to say that organizations may have difficulty upholding high ethical standards when their future employees so readily accept unethical behavior.

What can managers do? Two actions seem to be particularly important: ethical leadership and protecting those who report wrongdoing.

ETHICAL LEADERSHIP. Not long after Herb Baum took over as CEO of Dial Corporation, he got a call from Reuben Mark, the CEO of competitor Colgate-Palmolive, who told him he had a copy of Dial's strategic marketing plan that had come from a former Dial salesperson who recently had joined Colgate-Palmolive. Mark told Baum that he had not looked at it, didn't intend to look at, and was returning it. In addition, he himself was going to deal appropriately with the new salesperson.[75] As this example illustrates, managers must provide ethical leadership. As we said earlier, what managers *do* has a strong influence on employees' decisions whether to behave ethically. When managers cheat, lie, steal, manipulate, take advantage of situations or people, or treat others unfairly, what kind of signal are they sending to employees (or other stakeholders)? Probably not the one they want to send. Exhibit 5-9 gives some suggestions on how managers can provide ethical leadership.

PROTECTION OF EMPLOYEES WHO RAISE ETHICAL ISSUES. What would you do if you saw other employees doing something illegal, immoral, or unethical? Would you step forward? Many of us wouldn't because of the perceived risks. That's why it's important for managers to assure employees who raise ethical concerns or issues that they will face no personal or career risks. These individuals, often called **whistle-blowers**, can be a key part of any company's ethics program. For example, Sherron Watkins, who was a vice president at Enron, clearly outlined her concerns about the company's accounting practices in a letter to chairman Ken Lay. Her statement that, "I am incredibly nervous that we will implode in a wave of accounting scandals" couldn't have been more prophetic.[76] However, surveys show that most observers of wrongdoing don't report it and that's the attitude managers have to address.[77] How can they protect employees so they're willing to step up if they see unethical or illegal things occurring?

One way is to set up toll-free ethics hotlines. For instance, Dell has an ethics hotline that employees can call anonymously to report infractions that the company will then investigate.[78] In addition, managers need to create a culture where bad news can be heard and acted on before it's too late. Michael Josephson, founder of the Josephson Institute of Ethics [www.josephsoninstitute.org] said, "It is absolutely and unequivocally important to establish a culture where it is possible for employees to complain and protest and to get heard."[79] Even if some whistle-blowers have a personal agenda they're pursuing, it's important to take them seriously. Finally, the federal legislation Sarbanes-Oxley offers some legal protection. Any manager who retaliates against an employee for reporting violations faces a stiff penalty: a 10-year jail sentence.[80] Unfortunately, despite this protection, hundreds of employees who have stepped forward and revealed wrongdoings at their companies have been fired or let go from their jobs.[81] So at the present time, it's not a perfect solution, but is a step in the right direction.

Social Entrepreneurship

The world's social problems are many and viable solutions are few. But numerous people and organizations are trying to do something. For instance, Reed Paget, founder and CEO

EXHIBIT 5-9
Being an Ethical Leader

- Be a good role model by being ethical and honest.
  - Tell the truth always.
  - Don't hide or manipulate information.
  - Be willing to admit your failures.
- Share your personal values by regularly communicating them to employees.
- Stress the organization's or team's important shared values.
- Use the reward system to hold everyone accountable to the values.

of British bottled water company Belu, made his company the world's first to become carbon-neutral. Its bottles are made from corn and can be composted into soil. Also, Belu's profits go toward projects that bring clean water to parts of the world that lack access to it. Paget has chosen to pursue a purpose as well as a profit.[82] He is an example of a **social entrepreneur**, an individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches.[83] "What business entrepreneurs are to the economy, social entrepreneurs are to social change."[84] Social entrepreneurs want to make the world a better place and have a driving passion to make that happen. For example, AgSquared aims to help small farmers, who make up 90 percent of the farms in the United States, keep better track of critical information such as basic accounting of seeds, soil data and weather mapping, and even best practices from the farm community.[85] Also, social entrepreneurs use creativity and ingenuity to solve problems. For instance, Seattle-based PATH (Program for Appropriate Technology in Health) is an international nonprofit organization that uses low-cost technology to provide needed health-care solutions for poor, developing countries. By collaborating with public groups and for-profit businesses, PATH has developed simple life-saving solutions, such as clean birthing kits, credit-card sized lab test kits, and disposable vaccination syringes that can't be reused. PATH has pioneered innovative approaches to solving global medical problems.[86]

Matt Flannery (right) and Premel Shah are trying to do something about the world's social problems. Social entrepreneurs Flannery, cofounder and CEO, and Shah, president, operate their nonprofit organization Kiva.org by combining microfinance with the Internet to create a global community of lenders for entrepreneurs in developing nations and the United States. Kiva's mission is to connect people, through lending, for the sake of alleviating poverty. Practical and innovative, Kiva promotes partnership relationships that are characterized by mutual dignity and respect rather than benefactor relationships.

What can we learn from these social entrepreneurs? Although many organizations have committed to doing business ethically and responsibly, perhaps there is more they can do, as these social entrepreneurs show. Maybe, as in the case of PATH, it's simply a matter of business organizations collaborating with public groups or nonprofit organizations to address a social issue. Or maybe, as in the case of AgSquared, it's providing expertise where needed. Or it may involve nurturing individuals who passionately and unwaveringly believe they have an idea that could make the world a better place and simply need the organizational support to pursue it.

Businesses Promoting Positive Social Change

Since 1946, Target has contributed 5 percent of its annual income to support community needs, an amount that adds up to more than $3 million a week. And it's not alone in those efforts. "Over the past two decades, a growing number of corporations, both within and beyond the United States, have been engaging in activities that promote positive social change."[87] Businesses can do this in a couple of ways: through corporate philanthropy and through employee volunteering efforts.

CORPORATE PHILANTHROPY. Corporate philanthropy can be an effective way for companies to address societal problems.[88] For instance, the breast cancer "pink" campaign and the global AIDS Red campaign (started by Bono) are ways that companies support social causes.[89] Many organizations also donate money to various causes that employees and customers care about. In 2008 (latest numbers available), the three largest cash givers—Walmart, Bank of America, and ExxonMobil—donated more than $734 million.[90] Others have funded their own foundations to support various social issues. For example, Google's foundation—called DotOrg by its employees—has about $2 billion in assets that

whistle-blower
Individuals who raise ethical concerns or issues to others

social entrepreneur
An individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches

it will use to support five areas: developing systems to help predict and prevent disease pandemics, empowering the poor with information about public services, creating jobs by investing in small and midsized businesses in the developing world, accelerating the commercialization of plug-in cars, and making renewable energy cheaper than coal.[91]

EMPLOYEE VOLUNTEERING EFFORTS. Employee volunteering is another popular way for businesses to be involved in promoting social change. For instance, Molson-Coors' eleven-member executive team spent a full day at their annual team-building retreat building a house in Las Vegas with Habitat for Humanity. PricewaterhouseCoopers employees renovated an abandoned school in Newark, New Jersey. Every Wachovia employee is given six paid days off from work each year to volunteer in his or her community. Other businesses are encouraging their employees to volunteer in various ways. The Committee to Encourage Corporate Philanthropy says that more than 90 percent of its members had volunteer programs and almost half encouraged volunteerism by providing paid time off or by creating volunteer events.[92] Many businesses have found that such efforts not only benefit communities, but enhance employees' work efforts and motivation.

What Would You Do?

John Emerman
Owner
The Stone Oven Bakery & Café
Cleveland, OH

Let's Get Real:

My Response *to A Manager's Dilemma, page 124*

TOMS is doing a great act of charity and kindness. The challenge is to stay profitable while continuing to do good humanitarian work. Presumably, TOMS shoes are priced somewhat higher than those of their competition in order to pay for the donated shoes. The question then becomes how much more would people be willing to pay for a pair of shoes knowing that they are helping someone on the other side of the globe. 10 percent? 20 percent?

The answer to this question depends on the market(s) that TOMS serves. Certainly, a globally conscious person would be willing to pay the higher price. The company should therefore direct their marketing and advertising efforts toward this sector of the market. The focus, of course, must be on educating the consumer on the importance of sending shoes to South America and the good that results from this act of generosity.

CHAPTER SUMMARY
by Learning Outcomes

Discuss what it means to be socially responsible and what factors influence that decision.

LEARNING OUTCOME 5.1

Social obligation, which reflects the classical view of social responsibility, is when a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities. Social responsiveness is when a firm engages in social actions in response to some popular social need. Social responsibility is a business's intention, beyond its economic and legal obligations, to pursue long-term goals that are good for society. Both of these reflect the socioeconomic view of social responsibility. Determining whether organizations should be socially involved can be done by looking at arguments for and against it. Other ways are to assess the impact of social involvement on a company's economic performance and evaluate the performance of SRI funds versus non-SRI funds. We can conclude that a company's being socially responsible doesn't appear to hurt its economic performance.

Explain green management and how organizations can go green.

LEARNING OUTCOME 5.2

Green management is when managers consider the impact of their organization on the natural environment. Organizations can "go green" in different ways. The light green approach is doing what is required legally, which is social obligation. Using the market approach, organizations respond to the environmental preferences of their customers. Using the stakeholder approach, organizations respond to the environmental demands of multiple stakeholders. Both the market and stakeholder approaches can be viewed as social responsiveness. With an activist or dark green approach, an organization looks for ways to respect and preserve the earth and its natural resources, which can be viewed as social responsibility.

Green actions can be evaluated by examining reports that companies compile about their environmental performance, by looking for compliance with global standards for environmental management (ISO 14000), and by using the Global 100 list of the most sustainable corporations in the world.

Discuss the factors that lead to ethical and unethical behavior.

LEARNING OUTCOME 5.3

Ethics refers to the principles, values, and beliefs that define right and wrong decisions and behavior. The factors that affect ethical and unethical behavior include an individual's level of moral development (preconventional, conventional, or principled), individual characteristics (values and personality variables—ego strength and locus of control), structural variables (structural design, use of goals, performance appraisal systems, and reward allocation procedures), organizational culture (shared values and cultural strength), and issue intensity (greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victims, and concentration of effect).

Since ethical standards aren't universal, managers should know what they can and cannot do legally as defined by the Foreign Corrupt Practices Act. It's also important to recognize any cultural differences and to clarify ethical guidelines for employees working in different global locations. Finally, managers should know about the principles of the Global Compact and the Anti-Bribery Convention.

Describe management's role in encouraging ethical behavior.

LEARNING OUTCOME 5.4

The behavior of managers is the single most important influence on an individual's decision to act ethically or unethically. Some specific ways managers can encourage ethical

behavior include paying attention to employee selection, having and using a code of ethics, recognizing the important ethical leadership role they play and how what they do is far more important than what they say, making sure that goals and the performance appraisal process don't reward goal achievement without taking into account how those goals were achieved, using ethics training and independent social audits, and establishing protective mechanisms.

LEARNING OUTCOME 5.5

Discuss current social responsibility and ethics issues.

Managers can manage ethical lapses and social irresponsibility by being strong ethical leaders and by protecting employees who raise ethical issues. The example set by managers has a strong influence on whether employees behave ethically. Ethical leaders also are honest, share their values, stress important shared values, and use the reward system appropriately. Managers can protect whistle-blowers (employees who raise ethical issues or concerns) by encouraging them to come forward, by setting up toll-free ethics hotlines, and by establishing a culture in which employees can complain and be heard without fear of reprisal. Social entrepreneurs play an important role in solving social problems by seeking out opportunities to improve society by using practical, innovative, and sustainable approaches. Social entrepreneurs want to make the world a better place and have a driving passion to make that happen. Businesses can promote positive social change through corporate philanthropy and employee volunteering efforts.

mymanagementlab

To check your understanding of learning outcomes 5.1 – 5.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Differentiate between social obligation, social responsiveness, and social responsibility.
2. What does social responsibility mean to you personally? Do *you* think business organizations should be socially responsible? Explain.
3. What is green management and how can organizations go green?
4. What factors influence whether a person behaves ethically or unethically? Explain all relevant factors.
5. Do you think values-based management is just a "do-gooder" ploy? Explain your answer.
6. Discuss specific ways managers can encourage ethical behavior.
7. Internet file sharing programs are popular among college students. These programs work by allowing non-organizational users to access any local network where desired files are located. Because these types of file sharing programs tend to clog bandwidth, local users' ability to access and use a local network is reduced. What ethical and social responsibilities does a university have in this situation? To whom do they have a responsibility? What guidelines might you suggest for university decision makers?
8. What are some problems that could be associated with employee whistle-blowing for (a) the whistle-blower and (b) the organization?
9. Describe the characteristics and behaviors of someone you consider to be an ethical person. How could the types of decisions and actions this person engages in be encouraged in a workplace?
10. Explain the ethical and social responsibility issues facing managers today.

ETHICS DILEMMA

"Apple's chief takes a medical leave after months of denial that his health is declining; many feel because he is so closely linked with the firm's creative vision, Steve Jobs should be required to release more medical information." What do you think? Do the heads of publicly traded firms have a right to medical privacy? What ethical issues might arise in such a situation?[93]

SKILLS EXERCISE

Developing Your Developing Trust Skill

About the Skill

Trust plays an important role in the manager's relationships with his or her employees.[94] Given the importance of trust in setting a good ethical example for employees, today's managers should actively seek to develop it within their work group.

Steps in Practicing the Skill

1. *Practice openness.* Mistrust comes as much from what people don't know as from what they do. Being open with employees leads to confidence and trust. Keep people informed. Make clear the criteria you use in making decisions. Explain the rationale for your decisions. Be forthright and candid about problems. Fully disclose all relevant information.
2. *Be fair.* Before making decisions or taking actions, consider how others will perceive them in terms of objectivity and fairness. Give credit where credit is due. Be objective and impartial in performance appraisals. Pay attention to equity perceptions in distributing rewards.
3. *Speak your feelings.* Managers who convey only hard facts come across as cold, distant, and unfeeling. When you share your feelings, others will see that you are real and human. They will know you for who you are and their respect for you is likely to increase.
4. *Tell the truth.* Being trustworthy means being credible. If honesty is critical to credibility, then you must be perceived as someone who tells the truth. Employees are more tolerant of hearing something "they don't want to hear" than of finding out that their manager lied to them.
5. *Be consistent.* People want predictability. Mistrust comes from not knowing what to expect. Take the time to think about your values and beliefs and let those values and beliefs consistently guide your decisions. When you know what's important to you, your actions will follow, and you will project a consistency that earns trust.
6. *Fulfill your promises.* Trust requires that people believe that you are dependable. You need to ensure that you keep your word. Promises made must be promises kept.
7. *Maintain confidences.* You trust those whom you believe to be discreet and those on whom you can rely. If people open up to you and make themselves vulnerable by telling you something in confidence, they need to feel assured you won't discuss it with others or betray that confidence. If people perceive you as someone who leaks personal confidences or someone who can't be depended on, you've lost their trust.
8. *Demonstrate competence.* Develop the admiration and respect of others by demonstrating technical and professional ability. Pay particular attention to developing and displaying your communication, negotiation, and other interpersonal skills.

Practicing the Skill

Read through the following scenario. Write a paper describing how you would handle the situation. Be sure to refer to the eight behaviors described for developing trust.

Scenario

Donna Romines is the shipping department manager at Tastefully Tempting, a gourmet candy company based in Phoenix. Orders for the company's candy come from around the world. Your six-member team processes these orders. Needless to say, the two months before Christmas are quite hectic. Everybody counts the days until December 24 when the phones finally stop ringing off the wall, at least for a couple of days. You and all of your team members breathe a sigh of relief as the last box of candy is sent on its way out the door.

When the company was first founded five years ago, after the holiday rush, the owners would shut down Tastefully Tempting for two weeks after Christmas. However, as the business has grown and moved into Internet sales, that practice has become too costly. There's too much business to be able to afford that luxury. And the rush for Valentine's Day orders start pouring in the week after Christmas. Although the two-week post-holiday company-wide shutdown has been phased out formally, some departments have found it difficult to get employees to gear up once again after the Christmas break. The employees who come to work after Christmas usually accomplish little. This year, though, things have got to change. You know that the cultural "tradition" won't be easy to overcome, but your shipping team needs to be ready to tackle the orders that have piled up. After all, Tastefully Tempting's customers want their orders filled promptly and correctly!

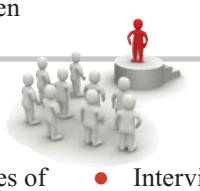
WORKING TOGETHER

Team Exercise

In an effort to be (or at least appear to be) socially responsible, many organizations donate money to philanthropic and charitable causes. In addition, many organizations ask their employees to make individual donations to these causes. Suppose you're the manager of a work team, and you know that several of your employees can't afford to pledge money right now because of personal or financial problems. You've also been told by your supervisor that the CEO has been known to check the list of individual contributors to see who is and is not "supporting these very important causes." Working together in a small group of three or four, answer the following questions:

- How would you handle this situation?
- What ethical guidelines might you suggest for individual and organizational contributions in such a situation?
- Create a company policy statement that expresses your ethical guidelines.

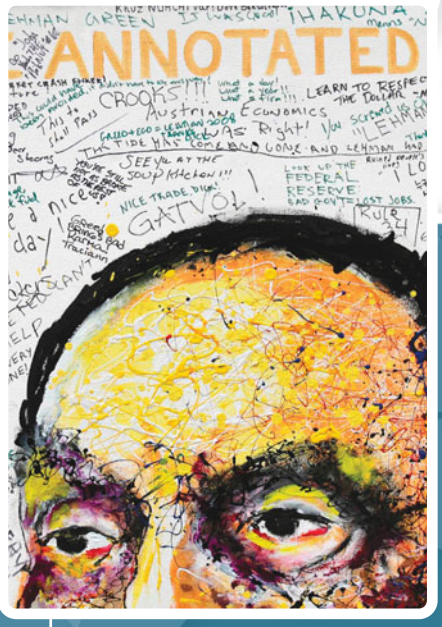
MY TURN TO BE A MANAGER



- Find five different examples of organizational codes of ethics. Using Exhibit 5-7, describe what each contains. Compare and contrast the examples.
- Using the examples of codes of ethics you found, create what you feel would be an appropriate and effective organizational code of ethics. In addition, create your own *personal code of ethics* that you can use as a guide to ethical dilemmas.
- Take advantage of volunteer opportunities. Be sure to include these on your résumé. If possible, try to do things in these volunteer positions that will improve your managerial skills in planning, organizing, leading, or controlling.
- Go to the Global Reporting Initiative Web site [www.globalreporting.org] and choose three businesses from the list that have filed reports. Look at those reports and describe/evaluate what's in them. In addition, identify the stakeholders that might be affected and how they might be affected by the company's actions.
- Make a list of what green management things your school is doing. If you're working, make a list of what green management things your employer is doing. Do some research on being green. Are there additional things your school or employer could be doing? Write a report to each describing any suggestions. (Look for ways that you could use these suggestions to be more "green" in your personal life.)
- Over the course of two weeks, see what ethical "dilemmas" you observe. These could be ones that you personally face or they could be ones that others (friends, colleagues, other students talking in the hallway or before class starts, or so forth) face. Write these dilemmas down and think about what you might do if faced with that dilemma.
- Interview two different managers about how they encourage their employees to be ethical. Write down their comments and discuss how these ideas might help you be a better manager.
- Steve's and Mary's suggested readings: Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (Portfolio, 2003); Barbara Ley Toffler, *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen* (Broadway Books, 2003); Joseph L. Badaracco, Jr., *Leading Quietly: An Unorthodox Guide to Doing the Right Thing* (Harvard Business School Press, 2002); and Kenneth Blanchard and Norman Vincent Peale, *The Power of Ethical Management* (Morrow, 1988).
- If you have the opportunity, take a class on business or managerial ethics or on social responsibility—often called business and society—or both. Not only will this look good on your résumé, it could help you personally grapple with some of the tough issues managers face in being ethical and responsible.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What Do I Value? How Do My Ethics Rate? Do I Trust Others? and Do Others See Me as Trusting? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Lessons from Lehman Brothers: Will We Ever Learn?



"Greed" and "Crooks" are a sampling of comments recorded on a rendering of Lehman's chief executive Richard Fuld by artist Geoffrey Raymond, who placed his painting outside of Lehman's New York City offices and handed out markers to employees and pedestrians so they could write a message regarding the firm's announcement that it was filing for bankruptcy.

On September 15, 2008, financial services firm Lehman Brothers filed for bankruptcy with the U.S. Bankruptcy Court in the Southern District of New York.[95] That action—the largest Chapter 11 filing in financial history—unleashed a "crisis of confidence that threw financial markets worldwide into turmoil, sparking the worst crisis since the Great Depression." The fall of this Wall Street icon is, unfortunately, not a new one, as we've seen in the stories of Enron, WorldCom, and others. In a report released by bankruptcy court-appointed examiner Anton Valukas, Lehman executives and the firm's auditor, Ernst & Young, were lambasted for actions that led to the firm's collapse. He said, "Lehman repeatedly exceeded its own internal risk limits and controls, and a wide range of bad calls by its management led to the bank's failure." Let's look behind the scenes at some of the issues.

One of the major problems at Lehman was its culture and reward structure. Excessive risk taking by employees was openly lauded and rewarded handsomely. Individuals making questionable deals were hailed and treated as "conquering heroes." On the other hand, anyone who questioned decisions was often ignored or overruled. For instance, Oliver Budde, who served as an associate general counsel at Lehman for nine years, was responsible for preparing the firm's public filings on executive compensation. Infuriated by what he felt was the firm's "intentional under-representation of how much top executives were paid," Budde argued with his bosses for years about that matter, to no avail. Then, one time he objected to a tax deal that an outside accounting firm had proposed to lower medical insurance costs saying, "My gut feeling was that this was just reshuffling some papers to get an expense off the balance sheet. It was not the right thing, and I told them." However, Budde's bosses disagreed and okayed the deal.

Another problem at Lehman was the firm's top leadership. Valukas's report was highly critical of Lehman's executives who "should have done more, done better." He pointed out that the executives made the company's problems worse by their conduct, which ranged from "serious but nonculpable errors of business judgment to actionable balance sheet manipulation." Valukas went on to say that "former chief executive Richard Fuld was at least grossly negligent in causing Lehman to file misleading periodic reports." These reports were part of an accounting device called "Repo 105." Lehman used this device to get some $50 billion of undesirable assets off its balance sheet at the end of the first and second quarters of 2008, instead of selling those assets at a loss. The examiner's report "included e-mails from Lehman's global financial controller confirming that the only purpose or motive for Repo 105 transactions was reduction in the balance sheet, adding that there was no substance to the transactions." Lehman's auditor was aware of the use of Repo 105 but did not challenge or question it. Sufficient evidence indicated that Fuld knew about the use of it as well; however, he signed off on quarterly reports that made no mention of it. Fuld's attorney said, "Mr. Fuld did not know what these

transactions were—he didn't structure or negotiate them, nor was he aware of their accounting treatment." A spokesperson from Ernst & Young (the auditor) said that, "Lehman's bankruptcy was the result of a series of unprecedented adverse events in the financial markets."

Discussion Questions

1. Describe the situation at Lehman Brothers from an ethics perspective. What's your opinion of what happened here?
2. What was the culture at Lehman Brothers like? How did this culture contribute to the company's downfall?
3. What role did Lehman's executives play in the company's collapse? Were they being responsible and ethical? Discuss.
4. Could anything have been done differently at Lehman Brothers to prevent what happened? Explain.
5. After all the public uproar over Enron and then the passage of the Sarbanes-Oxley Act to protect shareholders, why do you think we still continue to see these types of situations? Is it unreasonable to expect that businesses can and should act ethically?

CASE APPLICATION 2

Green Up on Aisle Two

It's probably the last company that you'd think of as going green.[96] As the world's largest retailer with more than 8,400 stores globally, Walmart moves massive amounts of products and uses massive amounts of power and other resources to operate its business. But it's also striving to transform itself into a company that's seen as environmentally friendly. That's why the company's announcement that it would cut some 20 million metric tons of greenhouse gas emissions from its supply chain—the equivalent of removing more than 3.8 million cars from the road for a year—got widespread attention. This announcement came a few months after the company said that it would be creating a sustainability index of just how green its products are.

The first part of Walmart's three-phase plan was getting information from its more than 100,000 suppliers using a 15-question survey about their greenhouse gas emissions, water and solid waste reduction efforts, and other details about business practices. That information was received by October 2009, and the second-phase process of entering it into a massive database began. The third phase involves getting all that data eventually condensed into an easily understood universal rating system, similar to a nutrition label but focused on details about environmental and social sustainability. However, it's likely that this effort won't be complete until 2013.

This isn't the company's first push toward being green. Walmart has started many environmental initiatives in recent years including improving the efficiency of its truck fleet and working with 20th Century Fox Home Entertainment, which produces DVDs, to cut greenhouse gas emissions by eliminating the plastic knob in the center of its CD cases. The most difficult part of this latest green initiative has been persuading its suppliers to spend the time and money tracking and lessening their environmental impact. Essentially, suppliers are being asked to "examine the carbon lifecycle of their products, from the raw materials used in manufacturing all the way through to the recycling phase." Although supplier participation was not mandatory, Walmart made it clear that it was interested in doing business only with suppliers that shared its goals. The company is also collaborating with organizations such as the Environmental Defense Fund, ClearCarbon, the Applied Sustainability Center at the University of Arkansas, and the Carbon Disclosure Project. These groups will advise Walmart and its suppliers and help in evaluating and measuring reductions.

Discussion Questions

1. What do you think of Walmart's green initiatives? Will it ever be able to achieve the reputation of being environmentally friendly? Discuss.
2. Why do you think suppliers might be reluctant to be involved in this initiative? How might that reluctance be addressed? Although it said supplier participation was not mandatory, does Walmart appear to be "forcing" suppliers to participate?
3. Why do you think it's important for Walmart to collaborate with other green-minded organizations?
4. What could other organizations learn from Walmart's green initiatives?

6 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Reginald Lo

Vice President of Professional Services
Third Sky, Inc.
Alameda, CA

MY JOB:

I'm vice president for professional services at Third Sky, Inc. Third Sky is a consulting company that helps IT organizations deliver better service to their customers. Third Sky provides education on industry best practices, consulting services for planning and executing improvement initiatives, and technology implementation services to enable the adoption of best practices. I play a dual role at Third Sky: I manage all of Third Sky's consultants and oversee the development of new service offerings; and I am a consultant who goes to customers' sites to help them improve.

BEST PART OF MY JOB:

The thanks I receive from customers when we teach them industry best practices and help them adopt these practices. We have made their lives less hectic and enabled them to provide better service to their customers, who in turn thank them.

Managing Change *and* Innovation

LEARNING OUTCOMES

6.1 **Compare** and contrast views on the change process. *page 152*

6.2 **Classify** types of organizational change. *page 154*

6.3 **Explain** how to manage resistance to change. *page 158*

6.4 **Discuss** contemporary issues in managing change. *page 159*

6.5 **Describe** techniques for stimulating innovation. *page 165*

WORST PART OF MY JOB:

The "administrivia." Unfortunately, one must do certain activities in order to maintain good control of an organization (e.g. reviewing and approving timesheets and expense reports, triggering invoicing, etc.).

BEST MANAGEMENT ADVICE EVER RECEIVED:

There are three types of people in an organization: the change agent, the change participant, and the change resister. The change agents are the happiest because they control their own destiny. The change resisters aren't going to be around for very long.

A Manager's Dilemma

After 29 years of flight, NASA's space shuttle program is expected to end in 2010.[1] Over that time span, we've seen highs and lows, triumphs and tragedies. Dismantling a program of this magnitude involves massive changes for managers and employees.

One change that managers must deal with is how the agency will be structured to revitalize the space program—a decision that's not theirs to make. Because it is a governmental agency, lawmakers will make the decision. Congress wants to continue with NASA's existing space exploration program, Constellation. But the president thinks it is too expensive and flawed and wants to use private enterprise until NASA can develop more advanced space vehicles. The reputation of the United States as a leader in space exploration, being the only country to put people on the moon, is at stake. But there's more than national pride. "Losing the lead in space has national security and industrial consequences."

The most critical change facing NASA's managers is what to do with its workforce of highly trained and skilled individuals while the future of its space exploration program is debated and decided. How will they keep employees focused during this change?

What Would You Do?

The managerial challenges facing NASA'S leaders in encouraging continued innovative efforts among all the agency's employees during uncertain times is certainly not unique. Big companies and small businesses, universities and colleges, state and city governments, and even the military are forced to be innovative. Although innovation has always been a part of the manager's job, it has become even more important in recent years. We'll describe why innovation is important and how managers can manage innovation in this chapter. Because innovation is often closely tied to an organization's change efforts, we'll start by looking at change and how managers manage change.

LEARNING OUTCOME 6.1
Compare and contrast views on the change process.

The Change Process

When John Lechleiter assumed the CEO's job at Eli Lilly, he sent each of his senior executives a gift—"a digital clock counting down, second by second, to October 23, 2011. That's the day Lilly's $5 billion-a-year schizophrenia pill, Zyprexa, is no longer under patent." Between 2010 and the end of 2016, Lilly stands to lose $10 billion in annual revenues as patents on three of its key drugs expire. Needless to say, the company has had to make some organizational changes as it picks up the pace of drug development.[2] Lilly's managers are doing what managers everywhere must do—implement change!

If it weren't for change, a manager's job would be relatively easy. Planning would be simple because tomorrow would be no different from today. The issue of effective organizational design would also be resolved because the environment would not be uncertain and there would be no need to redesign the structure. Similarly, decision making would be dramatically streamlined because the outcome of each alternative could be predicted with almost certain accuracy. But that's not the way it is. Change is an organizational reality.[3] Organizations face change because external and internal factors create the need for change (see Exhibit 6-1). When managers recognize that change is needed, then what? How do they respond?

Two Views of the Change Process

Two very different metaphors can be used to describe the change process.[4] One metaphor envisions the organization as a large ship crossing a calm sea. The ship's captain and crew know exactly where they're going because they've made the trip many times before. Change comes in the form of an occasional storm, a brief distraction in an otherwise calm and predictable trip.

External

- Changing consumer needs and wants
- New governmental laws
- Changing technology
- Economic changes

Internal

- New organizational strategy
- Change in composition of workforce
- New equipment
- Changing employee attitudes

EXHIBIT 6-1
External and Internal Forces for Change

In the calm waters metaphor, change is seen as an occasional disruption in the normal flow of events. In the other metaphor, the organization is seen as a small raft navigating a raging river with uninterrupted white-water rapids. Aboard the raft are half-a-dozen people who have never worked together before, who are totally unfamiliar with the river, who are unsure of their eventual destination, and who, as if things weren't bad enough, are traveling at night. In the white-water rapids metaphor, change is normal and expected and managing it is a continual process. These two metaphors present very different approaches to understanding and responding to change. Let's take a closer look at each one.

THE CALM WATERS METAPHOR. At one time, the calm waters metaphor was fairly descriptive of the situation that managers faced. It's best discussed using Kurt Lewin's three-step change process.[5] (See Exhibit 6-2.)

According to Lewin, successful change can be planned and requires *unfreezing* the status quo, *changing* to a new state, and *refreezing* to make the change permanent. The status quo is considered equilibrium. To move away from this equilibrium, unfreezing is necessary. Unfreezing can be thought of as preparing for the needed change. It can be done by increasing the *driving forces,* which are forces pushing for change; by decreasing the *restraining forces*, which are forces that resist change; or by combining the two approaches.

Once unfreezing is done, the change itself can be implemented. However, merely introducing change doesn't ensure that it will take hold. The new situation needs to be *refrozen* so that it can be sustained over time. Unless this last step is done, there's a strong chance that employees will revert back to the old equilibrium state—that is, the old ways of doing things. The objective of refreezing, then, is to stabilize the new situation by reinforcing the new behaviors.

Lewin's three-step process treats change as a move away from the organization's current equilibrium state. It's a calm waters scenario where an occasional disruption (a "storm") means changing to deal with the disruption. Once the disruption has been dealt with, however, things can continue on under the new changed situation. This type of environment isn't what most managers face today.

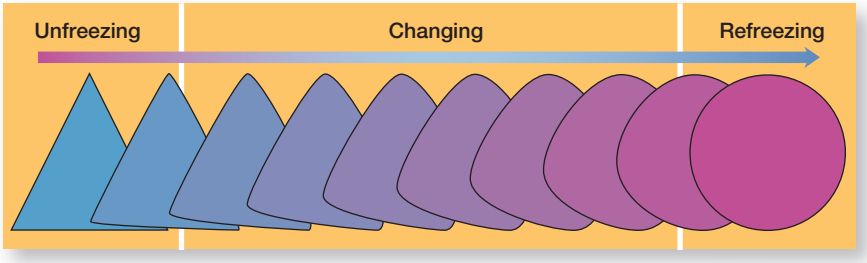


EXHIBIT 6-2
The Three-Step Change Process

WHITE-WATER RAPIDS METAPHOR. Susan Whiting is CEO of Nielsen Media Research, the company best known for its television ratings, which are frequently used to determine how much advertisers pay for TV commercials. The media research business isn't what it used to be, however, as the Internet, video on demand, cell phones, iPods, digital video recorders, and other changing technologies have made data collection much more challenging. Whiting says, "If you look at a typical week I have, it's a combination of trying to lead a company in change in an industry in change."[6] That's a pretty accurate description of what change is like in our second change metaphor—white-water rapids. It's also consistent with a world that's increasingly dominated by information, ideas, and knowledge.[7]

To get a feeling of what managing change might be like in a white-water rapids environment, consider attending a college that had the following rules: Courses vary in length. When you sign up, you don't know how long a course will run. It might go for 2 weeks or 15 weeks. Furthermore, the instructor can end a course at any time with no prior warning. If that isn't challenging enough, the length of the class changes each time it meets: Sometimes the class lasts 20 minutes; other times it runs for 3 hours. And the time of the next class meeting is set by the instructor during this class. There's one more thing: All exams are unannounced, so you have to be ready for a test at any time. To succeed in this type of environment, you'd have to respond quickly to changing conditions. Students who are overly structured or uncomfortable with change wouldn't succeed.

Increasingly, managers are realizing that their job is much like what a student would face in such a college. The stability and predictability of the calm waters metaphor don't exist. Disruptions in the status quo are not occasional and temporary, and they are not followed by a return to calm waters. Many managers never get out of the rapids. Like Susan Whiting, they face constant change.

Is the white-water rapids metaphor an exaggeration? Probably not! Although you'd expect a chaotic and dynamic environment in high-tech industries, even organizations in non-high-tech industries are faced with constant change. Take the case of Swedish home appliance company Electrolux. You might think that the home appliances industry couldn't be all that difficult—after all, most households need the products, which are fairly uncomplicated—but that impression would be wrong. Electrolux's chief executive Hans Straberg has had several challenges to confront.[8] First, there's the challenge of developing products that will appeal to a wide range of global customers. Then, there's the challenge of cheaper alternatives flooding the market. In addition, Electrolux faces intense competition in the United States, where it gets 40 percent of its sales. Because approximately 80 percent of the workforce in Sweden belongs to a labor union, companies certainly face expectations as far as how they treat their employees. However, Straberg recognized that his company was going to have to change if it was going to survive and prosper. One thing he did was to shift production to lower-cost facilities in Asia and Eastern Europe. Then, to better grasp what today's consumers are thinking, the company held in-depth interviews with 160,000 customers from around the world. Using this information, a group of Electrolux employees gathered in Stockholm for a weeklong brainstorming session to search for insights on what hot new products to pursue. Finally, to make the new product development process speedier, Straberg eliminated the structural divisions between departments. Designers, engineers, and marketers have to work together to come up with ideas. These changes were essential if Electrolux wanted to survive the white-water rapids environment in which it operated.

Today, any organization that treats change as the occasional disturbance in an otherwise calm and stable world runs a great risk. Too much is changing too fast for an organization or its managers to be complacent. It's no longer business as usual. And managers must be ready to efficiently and effectively manage the changes facing their organization or their work area.

Let's Get Real

F2F

"Calm waters" or "white-water rapids"? *Our company is definitely a "white-water rapids" environment. We strive to continually increase our rate of change by improving our team, the way we work, and our equipment so we can navigate the waters successfully.*

LEARNING OUTCOME 6.2
Classify types of organizational change.

Types of Organizational Change

Managers at Verizon Wireless know what change is all about. "Even in an industry where rapid change is the status quo, it takes a special kind of company to handle the challenges posed by a major corporate acquisition and massive product rollout."[9] Verizon was up for the challenges and focused its change efforts on its people and processes.

What Is Organizational Change?

Most managers, at one point or another, will have to change some things in their workplace. We classify these changes as **organizational change**, which is any alteration of people, structure, or technology. Organizational changes often need someone to act as a catalyst and assume the responsibility for managing the change process—that is, a **change agent**. Change agents can be a manager within the organization, but could be a nonmanager—for example, a change specialist from the HR department or even an outside consultant. For major changes, an organization often hires outside consultants to provide advice and assistance. Because they're from the outside, they have an objective perspective that insiders may lack. But outside consultants have a limited understanding of the organization's history, culture, operating procedures, and people. They're also more likely to initiate drastic change than insiders would because they don't have to live with the repercussions after the change is implemented. In contrast, internal managers may be more thoughtful, but possibly overcautious, because they must live with the consequences of their decisions.

Types of Change

Managers face three main types of change: structure, technology, and people (see Exhibit 6-3). Changing *structure* includes any change in structural variables such as reporting relationships, coordination mechanisms, employee empowerment, or job redesign. Changing *technology* encompasses modifications in the way work is performed or the methods and equipment that are used. Changing *people* refers to changes in attitudes, expectations, perceptions, and behavior of individuals or groups.

CHANGING STRUCTURE. Changes in the external environment or in organizational strategies often lead to changes in the organizational structure. Because an organization's structure is defined by how work gets done and who does it, managers can alter one or both of these *structural components*. For instance, departmental responsibilities could be combined, organizational levels eliminated, or the number of persons a manager supervises could be increased. More rules and procedures could be implemented to increase standardization. Or employees could be empowered to make decisions so decision making could be faster.

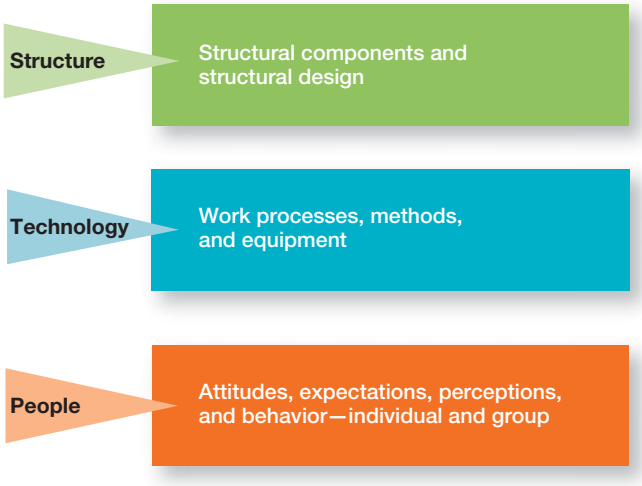


EXHIBIT 6-3
Three Types of Change

organizational change
Any alteration of people, structure, or technology in an organization

change agent
Someone who acts as a catalyst and assumes the responsibility for managing the change process

FUTURE VISION

The Working World in 2020

Life-Long Learning

By 2020, the line between school and work will have blurred. The life span of most skills will be less than 10 years, requiring people to continuously update their skills. Under these types of conditions, you'll have to be able to adapt to change.

Technology will allow life-long learning to proceed without going to formal classes. Instead, training will take place via online learning. You'll take courses that are adapted to your specific needs and time schedule. In the same way that you brush your teeth daily, you'll spend time each day online, learning new skills that will allow you to maintain currency in your field.

Another option would be to make major changes in the actual *structural design*. For instance, when Hewlett-Packard acquired Compaq Computer, product divisions were dropped, merged, or expanded. Structural design changes also might include, for instance, a shift from a functional to a product structure or the creation of a project structure design. Avery-Dennis Corporation, for example, revamped its structure to a new design that arranges work around teams.

CHANGING TECHNOLOGY. Managers can also change the technology used to convert inputs into outputs. Most early management studies dealt with changing technology. For instance, scientific management techniques involved implementing changes that would increase production efficiency. Today, technological changes usually involve the introduction of new equipment, tools, or methods; automation; or computerization.

Competitive factors or new innovations within an industry often require managers to introduce *new equipment, tools,* or *operating methods*. For example, coal mining companies in New South Wales updated operational methods, installed more efficient coal handling equipment, and made changes in work practices to be more productive.

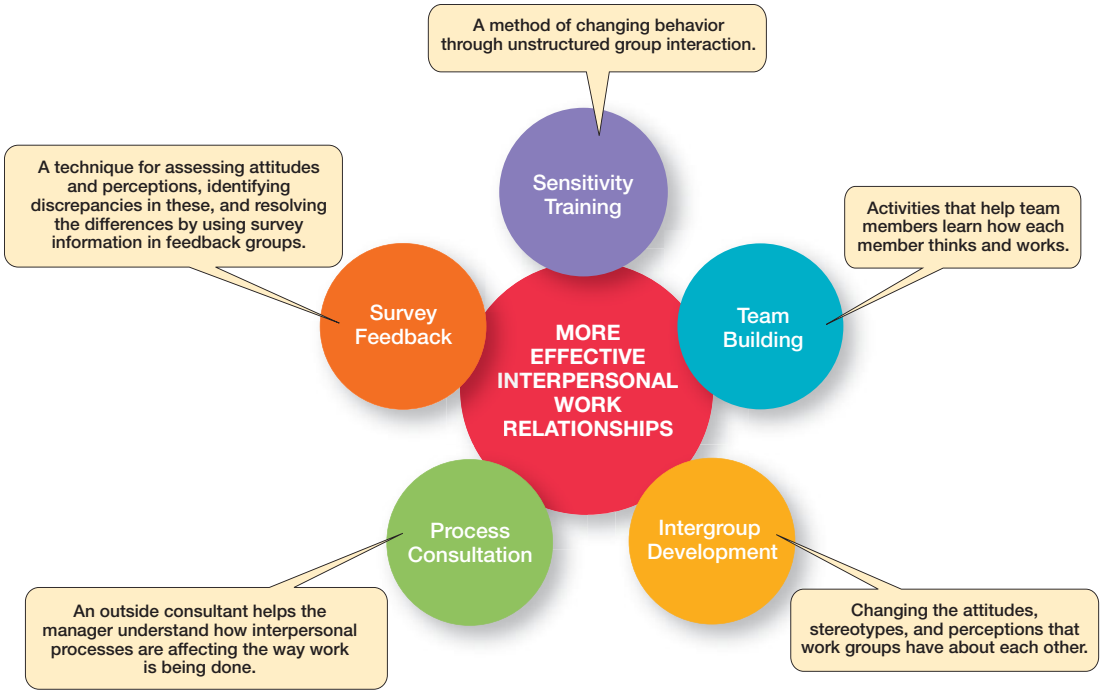
Automation is a technological change that replaces certain tasks done by people with tasks done by machines. Automation has been introduced in organizations such as the U.S. Postal Service where automatic mail sorters are used, and in automobile assembly lines, where robots are programmed to do jobs that workers used to perform.

The most visible technological changes have come from *computerization.* Most organizations have sophisticated information systems. For instance, supermarkets and other retailers use scanners that provide instant inventory information. Also, most offices are computerized. At BP p.l.c., for example, employees had to learn how to deal with the personal visibility and accountability brought about by an enterprise-wide information system. The integrative nature of this system meant that what any employee did on his or her computer automatically affected other computer systems on the internal network.[10] At the Benetton Group SpA, computers link its manufacturing plants outside Treviso, Italy, with the company's various sales outlets and a highly automated warehouse. Now, product information can be transmitted and shared instantaneously, a real plus in today's environment.[11]

CHANGING PEOPLE. Changing people involves changing attitudes, expectations, perceptions, and behaviors, something that's not easy to do. **Organizational development (OD)** is the term used to describe change methods that focus on people and the nature and quality of interpersonal work relationships.[12] The most popular OD techniques are described in Exhibit 6-4. Each seeks to bring about changes in the organization's people and make them work together better. For example, executives at Scotiabank, one of Canada's Big Five banks, knew that the success of a new customer sales and service strategy depended on changing employee attitudes and behaviors. Managers used different OD techniques during the strategic change including team building, survey feedback, and intergroup development. One indicator of how well these techniques worked in getting people to change was that every branch in Canada implemented the new strategy on or ahead of schedule.[13]

Much of what we know about OD practices has come from North American research. However, managers need to recognize that some techniques that work for U.S. organizations

EXHIBIT 6-4
Popular OD Techniques



may not be appropriate for organizations or organizational divisions based in other countries.[14] For instance, a study of OD interventions showed that "multirater [survey] feedback as practiced in the United States is not embraced in Taiwan" because the cultural value of "saving face is simply more powerful than the value of receiving feedback from subordinates."[15] What's the lesson for managers? Before using the same OD techniques to implement behavioral changes, especially across different countries, managers need to be sure that they've taken into account cultural characteristics and whether the techniques "make sense for the local culture."

Changing technology allows physicians to visit patients online rather than at a doctor's office or hospital emergency room. Advances in video-conferencing equipment, high-speed communication links by satellite, and more dependable Internet security are fueling the growth of interactive telemedicine businesses such as NuPhysicia, a start-up launched by Dr. Oscar Boultinghouse, an emergency medicine physician, and two colleagues. Dr. Boultinghouse is shown in this photo at his office in Houston talking to a patient who is a crane operator working on an oil rig in the South China Sea. Via two-way video, he used an electronic stethoscope that a paramedic on the rig held in place as part of diagnosing the patient's illness.

organizational development (OD)
Change methods that focus on people and the nature and quality of interpersonal work relationships

LEARNING OUTCOME
Explain how to manage resistance to change.

6.3

Managing Resistance to Change

We know that it's better for us to eat healthy and to be active, yet few of us follow that advice. We resist making changes in our lifestyle. Volkswagen Sweden and ad agency DDB Stockholm did an experiment to see if they could get people to change their behavior and take the healthier option of using the stairs instead of riding an escalator.[16] How? They put a working piano keyboard on a stairway in a Stockholm subway station (you can see a video of it on YouTube) to see if commuters would use it. The experiment was a resounding success as stair traffic rose 66 percent. The lesson—people can change if you make the change appealing.

Change can be a threat to people in an organization. Organizations can build up inertia that motivates people to resist changing their status quo, even though change might be beneficial. Why do people resist change and what can be done to minimize their resistance?

Why Do People Resist Change?

It's often said that most people hate any change that doesn't jingle in their pockets. This resistance to change is well documented.[17] Why *do* people resist change? The main reasons include uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.[18]

Change replaces the known with uncertainty. No matter how much you may dislike attending college, at least you know what's expected of you. When you leave college for the world of full-time employment, you'll trade the known for the unknown. Employees in organizations are faced with similar uncertainty. For example, when quality control methods based on statistical models are introduced into manufacturing plants, many quality control inspectors have to learn the new methods. Some may fear that they will be unable to do so and may develop a negative attitude toward the change or behave poorly if required to use them.

Another cause of resistance is that we do things out of habit. Every day when you go to school or work you probably go the same way, if you're like most people. We're creatures of habit. Life is complex enough—we don't want to have to consider the full range of options for the hundreds of decisions we make every day. To cope with this complexity, we rely on habits or programmed responses. But when confronted with change, our tendency to respond in our accustomed ways becomes a source of resistance.

The third cause of resistance is the fear of losing something already possessed. Change threatens the investment you've already made in the status quo. The more that people have invested in the current system, the more they resist change. Why? They fear the loss of status, money, authority, friendships, personal convenience, or other economic benefits that they value. This fear helps explain why older workers tend to resist change more than younger workers. Older employees generally have more invested in the current system and thus have more to lose by changing.

A final cause of resistance is a person's belief that the change is incompatible with the goals and interests of the organization. For instance, an employee who believes that a proposed new job procedure will reduce product quality can be expected to resist the change. This type of resistance actually can be beneficial to the organization if expressed in a positive way.

Techniques for Reducing Resistance to Change

When managers see resistance to change as dysfunctional, what can they do? Several strategies have been suggested in dealing with resistance to change. These approaches include education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. These tactics are summarized here and described in Exhibit 6-5. Managers should view these techniques as tools and use the most appropriate one depending on the type and source of the resistance.

Education and communication can help reduce resistance to change by helping employees see the logic of the change effort. This technique, of course, assumes that much of the resistance lies in misinformation or poor communication.

EXHIBIT 6-5
Techniques for Reducing Resistance to Change

Technique	When Used	Advantage	Disadvantage
Education and communication	When resistance is due to misinformation	Clear up misunderstandings	May not work when mutual trust and credibility are lacking
Participation	When resisters have the expertise to make a contribution	Increase involvement and acceptance	Time-consuming; has potential for a poor solution
Facilitation and support	When resisters are fearful and anxiety ridden	Can facilitate needed adjustments	Expensive; no guarantee of success
Negotiation	When resistance comes from a powerful group	Can "buy" commitment	Potentially high cost; opens doors for others to apply pressure too
Manipulation and co-optation	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	Can backfire, causing change agent to lose credibility
Coercion	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	May be illegal; may undermine change agent's credibility

Participation involves bringing those individuals directly affected by the proposed change into the decision-making process. Their participation allows these individuals to express their feelings, increase the quality of the process, and increase employee commitment to the final decision.

Facilitation and support involve helping employees deal with the fear and anxiety associated with the change effort. This help may include employee counseling, therapy, new skills training, or a short paid leave of absence.

Negotiation involves exchanging something of value for an agreement to lessen the resistance to the change effort. This resistance technique may be quite useful when the resistance comes from a powerful source.

Manipulation and co-optation refer to covert attempts to influence others about the change. It may involve distorting facts to make the change appear more attractive.

Finally, *coercion* can be used to deal with resistance to change. Coercion involves the use of direct threats or force against the resisters.

Contemporary Issues in Managing Change

6.4 LEARNING OUTCOME
Discuss contemporary issues in managing change.

When CEO David Gray joined Daxko, a small software vendor based in Birmingham, Alabama, he wanted a more collegial workplace and he wanted to relieve employee stress. Now with a Wii console and a 52-inch plasma TV in the work/play lounge and an open-office layout, the company's "casual but driven environment now resembles Silicon Valley more than the Deep South." One employee said, "It's pretty intense here. Expectations for what I need to accomplish are clearly set. And if I can play the Wii while doing it, that's even better."[19] Employee stress is one of the major critical concerns for managers today. In this section, we're going to discuss stress and two other critical concerns—changing organizational culture and making change happen successfully. Let's look first at changing culture.

Changing Organizational Culture

Korean Air CEO Cho Yang-Ho had a challenging change situation facing him. He wanted to transform his airline's image of being an accident-prone airline from a developing country to that of a strong international competitor.[20] His main focus was on improving safety above all else, which meant making significant changes to the organization's culture. What made his task even more challenging was Korea's hierarchical culture that teaches Koreans

to be deferential toward their elders and superiors. Cho says, "It (the hierarchical culture) exists in all Oriental culture." His approach to changing his company's culture involved implementing a "systems approach aimed at minimizing the personality-driven, top-down culture that is a legacy of Korean business managers who place emphasis on intuition and responding to orders." The cultural change must have worked. Korean Air is now the world's largest commercial cargo carrier and it has earned a four-star rating (out of five possible stars) from a London aviation firm that rates airlines on quality.

The fact that an organization's culture is made up of relatively stable and permanent characteristics tends to make it very resistant to change.[21] A culture takes a long time to form, and once established it tends to become entrenched. Strong cultures are particularly resistant to change because employees have become so committed to them. For instance, it didn't take long for Lou Gerstner, who was CEO of IBM from 1993 to 2002, to discover the power of a strong culture. Gerstner, the first outsider to lead IBM, needed to overhaul the ailing, tradition-bound company if it was going to regain its role as the dominant player in the computer industry. However, accomplishing that feat in an organization that prided itself on its long-standing culture was Gerstner's biggest challenge. He said, "I came to see in my decade at IBM that culture isn't just one aspect of the game—it *is* the game."[22] Over time, if a certain culture becomes a handicap, a manager might be able to do little to change it, especially in the short run. Even under the most favorable conditions, cultural changes have to be viewed in years, not weeks or even months.

UNDERSTANDING THE SITUATIONAL FACTORS. What "favorable conditions" facilitate cultural change? One is that *a dramatic crisis occurs,* such as an unexpected financial setback, the loss of a major customer, or a dramatic technological innovation by a competitor. Such a shock can weaken the status quo and make people start thinking about the relevance of the current culture. Another condition may be that *leadership changes hands.* New top leadership can provide an alternative set of key values and may be perceived as more capable of responding to the crisis than the old leaders were. Another is that *the organization is young and small.* The younger the organization, the less entrenched its culture. It's easier for managers to communicate new values in a small organization than in a large one. Finally, the *culture is weak.* Weak cultures are more receptive to change than are strong ones.[23]

MAKING CHANGES IN CULTURE. If conditions are right, how do managers change culture? No single action is likely to have the impact necessary to change something ingrained and highly valued. Managers need a strategy for managing cultural change, as described in Exhibit 6-6. These suggestions focus on specific actions that managers can take. Following them, however, is no guarantee that the cultural change efforts will succeed. Organizational members don't quickly let go of values that they understand and that have worked well for them in the past. Change, if it comes, will be slow. Also, managers must stay alert to protect against any return to old, familiar traditions.

EXHIBIT 6-6
Changing Culture

- *Set the tone through management behavior*; top managers, particularly, need to be positive role models.
- Create *new stories, symbols, and rituals* to replace those currently in use.
- Select, promote, and support employees who *adopt the new values*.
- *Redesign socialization processes* to align with the new values.
- To encourage acceptance of the new values, *change the reward system*.
- Replace unwritten norms with *clearly specified expectations*.
- *Shake up current subcultures* through job transfers, job rotation, and/or terminations.
- Work to get consensus through *employee participation* and creating a climate with a high level of trust

Employee Stress

"Most weekdays at 5:30 p.m., after putting in eight hours as an insurance agent in Lawrenceville, Georgia, April Hamby scurries about 100 yards to the Kroger supermarket two doors away. She's not there to pick up some milk and bread, but instead to work an additional six hours as a cashier before driving home 35 miles and slipping into bed by 2 a.m. so she can get up at 7 a.m. and begin the grind anew."[24] And April's situation isn't all that unusual. During the economic downturn, many people found themselves working two or more jobs and battling stress.[25]

As a student, you've probably experienced stress—class projects, exams, even juggling a job and school. Then, there's the stress associated with getting a decent job after graduation. But even after you've landed that job, stress isn't likely to stop. For many employees, organizational change creates stress. An uncertain environment characterized by time pressures, increasing workloads, mergers, and restructuring has created a large number of employees who are overworked and stressed.[26] In fact, depending on which survey you look at, the number of employees experiencing job stress in the United States ranges anywhere from 40 percent to 80 percent.[27] However, workplace stress isn't just an American problem. Global studies indicate that some 50 percent of workers surveyed in 16 European countries reported that stress and job responsibility have risen significantly over a five-year period; 35 percent of Canadian workers surveyed said they are under high job stress; in Australia, cases of occupational stress jumped 21 percent in a one-year period; more than 57 percent of Japanese employees suffer from work-related stress; some 83 percent of call-center workers in India suffer from sleeping disorders; and a study of stress in China showed that managers are experiencing more stress.[28] Another interesting study found that stress was the leading cause of people quitting their jobs. Surprisingly, however, employers were clueless. They said that stress wasn't even among the top five reasons why people leave and instead wrongly believed that insufficient pay was the main reason.[29]

Providing a frustration venting room where factory workers can slam inflatable punching bags is one way that management of Foxconn Technology Group is helping its employees in China reduce personal and work-related stress. Because of severe labor shortages in China, Foxconn's factory employees work long days and are under extreme pressure to produce products. Many employees are young migrant workers living away from their families and other support groups. Foxconn has also set up a help line and hired psychiatrists to assist lonely and depressed workers and has recruited singers, dancers, and gym trainers to teach all employees how to relax and relieve stress.

WHAT IS STRESS? **Stress** is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities.[30] Stress isn't always bad. Although it's often discussed in a negative context, stress can be positive, especially when it offers a potential gain. For instance, functional stress allows an athlete, stage performer, or employee to perform at his or her highest level at crucial times.

However, stress is more often associated with constraints and demands. A constraint prevents you from doing what you desire; demands refer to the loss of something desired. When you take a test at school or have your annual performance review at work, you feel stress because you confront opportunity, constraints, and demands. A good performance review may lead to a promotion, greater responsibilities, and a higher salary. But a poor review may keep you from getting the promotion. An extremely poor review might lead to your being fired.

One other thing to understand about stress is that just because the conditions are right for stress to surface doesn't always mean it will. Two conditions are necessary for *potential* stress to become *actual* stress.[31] First, there must be uncertainty over the outcome, and second, the outcome must be important.

WHAT CAUSES STRESS? Stress can be caused by personal factors and by job-related factors called **stressors**. Clearly, change of any kind—personal or job-related—has the potential to cause stress because it can involve demands, constraints, or opportunities.

stress
The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities

stressors
Factors that cause stress

by the numbers[32]

62 percent of Americans are stressed about work.

27 percent of businesses say the biggest hurdle to change is empowering others to act on the change.

46 percent of individuals say they would give up some of their salary for more personal time.

50 percent or more of employee resistance to change could have been avoided with effective change management.

77 percent of managers say they work 41 to 60 hours a week.

31 percent of managers believe that innovation happens by accident at their companies.

25 percent of employees say their companies encourage innovation as a mandate.

51 percent of employees say that their co-workers are the biggest source of stress at work.

Organizations have no shortage of factors that can cause stress. Pressures to avoid errors or complete tasks in a limited time period, changes in the way reports are filed, a demanding supervisor, and unpleasant coworkers are a few examples. Let's look at five categories of organizational stressors: task demands, role demands, interpersonal demands, organization structure, and organizational leadership.

Task demands are factors related to an employee's job. They include the design of a person's job (autonomy, task variety, degree of automation), working conditions, and the physical work layout. Work quotas can put pressure on employees when their "outcomes" are perceived as excessive.[33] The more interdependence between an employee's tasks and the tasks of others, the greater the potential for stress. *Autonomy*, on the other hand, tends to lessen stress. Jobs in which temperatures, noise, or other working conditions are dangerous or undesirable can increase anxiety. So, too, can working in an overcrowded room or in a visible location where interruptions are constant.

Role demands relate to pressures placed on an employee as a function of the particular role he or she plays in the organization. **Role conflicts** create expectations that may be hard to reconcile or satisfy. **Role overload** is experienced when the employee is expected to do more than time permits. **Role ambiguity** is created when role expectations are not clearly understood and the employee is not sure what he or she is to do.

Interpersonal demands are pressures created by other employees. Lack of social support from colleagues and poor interpersonal relationships can cause considerable stress, especially among employees with a high social need.

Organization structure can increase stress. Excessive rules and an employee's lack of opportunity to participate in decisions that affect him or her are examples of structural variables that might be potential sources of stress.

Organizational leadership represents the supervisory style of the organization's managers. Some managers create a culture characterized by tension, fear, and anxiety. They establish unrealistic pressures to perform in the short run, impose excessively tight controls, and routinely fire employees who don't measure up. This style of leadership filters down through the organization and affects all employees.

Personal factors that can create stress include family issues, personal economic problems, and inherent personality characteristics. Because employees bring their personal problems to work with them, a full understanding of employee stress requires a manager to be understanding of these personal factors.[34] Evidence also indicates that employees' personalities have an effect on how susceptible they are to stress. The most commonly used labels for these personality traits are Type A and Type B.

Type A personality is characterized by chronic feelings of a sense of time urgency, an excessive competitive drive, and difficulty accepting and enjoying leisure time. The opposite of Type A is **Type B personality**. Type Bs don't suffer from time urgency or impatience. Until quite recently, it was believed that Type As were more likely to experience stress on and off the job. A closer analysis of the evidence, however, has produced new conclusions. Studies show that only the hostility and anger associated with Type A behavior are actually associated with the negative effects of stress. And Type Bs are just as susceptible to the same anxiety-producing elements. For managers, what is important is to recognize that Type A employees are more likely to show symptoms of stress, even if organizational and personal stressors are low.

Let's Get Real

We ease employee stress by *including them in planning for the change and driving the change. By including them, soliciting their feedback, and acting on their feedback, we increase the buy-in into the change process.*

WHAT ARE THE SYMPTOMS OF STRESS? We see stress in a number of ways. For instance, an employee who is experiencing high stress may become depressed, accident prone, or argumentative; may have difficulty making routine decisions; may be easily distracted, and so on. As Exhibit 6-7 shows, stress symptoms can be grouped under three general categories: physical, psychological, and behavioral. All of these can significantly affect an employee's work.

In Japan, there's a stress phenomenon called *karoshi* (pronounced kah-roe-she), which is translated literally as "death from overwork." During the late 1980s, "several high-ranking Japanese executives still in their prime years suddenly died without any previous sign of illness."[35] As public concern increased, even the Japanese Ministry of Labor got involved,

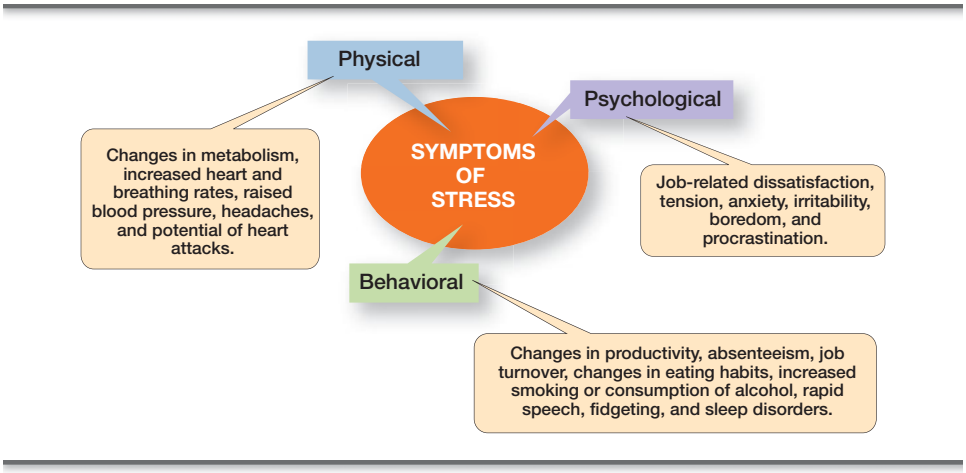


EXHIBIT 6-7
Symptoms of Stress

and it now publishes statistics on the number of karoshi deaths. As Japanese multinational companies expand operations to China, Korea, and Taiwan, it's feared that the karoshi culture may follow.

HOW CAN STRESS BE REDUCED? As mentioned earlier, not all stress is dysfunctional. Because stress can never be totally eliminated from a person's life, managers want to reduce the stress that leads to dysfunctional work behavior. How? Through controlling certain organizational factors to reduce job-related stress, and to a more limited extent, offering help for personal stress.

Things that managers can do in terms of job-related factors begin with employee selection. Managers need to make sure that an employee's abilities match the job requirements. When employees are in over their heads, their stress levels are typically high. A realistic job preview during the selection process can minimize stress by reducing ambiguity over job expectations. Improved organizational communications will keep ambiguity-induced stress to a minimum. Similarly, a performance planning program such as MBO will clarify job responsibilities, provide clear performance goals, and reduce ambiguity through feedback. Job redesign is also a way to reduce stress. If stress can be traced to boredom or to work overload, jobs should be redesigned to increase challenge or to reduce the workload. Redesigns that increase opportunities for employees to participate in decisions and to gain social support also have been found to reduce stress.[36] For instance, at U.K. pharmaceutical maker GlaxoSmithKline, a team-resilience program in which employees can shift assignments, depending on people's workload and deadlines, has helped reduce work-related stress by 60 percent.[37]

Stress from an employee's personal life raises two problems. First, it's difficult for the manager to control directly. Second, ethical considerations include whether the manager has the right to intrude—even in the most subtle ways—in an employee's personal life? If a manager believes it's ethical and the employee is receptive, the manager might consider several approaches. Employee *counseling* can provide stress relief. Employees often want to talk to someone about their problems, and the organization—through its managers, in-house human resource counselors, or free or low-cost outside professional help—can meet that need. Companies such as Citicorp, AT&T, and Johnson & Johnson provide extensive counseling services for their employees. A *time management program* can help employees whose personal lives suffer from a lack of planning to sort out their priorities.[38] Still another

role conflicts
Work expectations that are hard to satisfy

role overload
Having more work to accomplish than time permits

role ambiguity
When role expectations are not clearly understood

Type A personality
People who have a chronic sense of urgency and an excessive competitive drive

Type B personality
People who are relaxed and easygoing and accept change easily

Because of its willingness to adapt to changing market conditions, UPS has evolved from its founding in 1907 as a private messenger and delivery service in Seattle to a global service provider that handles 15.1 million packages each day. As a change-capable organization, UPS considered future business expansion and factored it into management's decision making for adding air service, entering the overnight air delivery business, and starting international air service. After receiving FAA authorization to operate its own aircraft, the company officially became an airline—UPS Airlines—with computerized operations systems for flight planning, scheduling, and load handling that can create optimum flight plans up to six years in advance.

approach is organizationally sponsored *wellness programs*. For example, Wellmark Blue Cross Blue Shield of Des Moines, Iowa, offers employees an onsite health and fitness facility that is open six days a week. Employees at Cianbro, a general contracting company located in the northeastern United States, are provided a wellness program tailored to the unique demands of the construction environment.[39]

Making Change Happen Successfully

Organizational change is an ongoing daily challenge facing managers in the United States *and* around the globe. In a global study of organizational changes in more than 2,000 organizations in Europe, Japan, the United States, and the United Kingdom, 82 percent of the respondents had implemented major information systems changes, 74 percent had created horizontal sharing of services and information, 65 percent had implemented flexible human resource practices, and 62 percent had decentralized operational decisions.[40] Each of these major changes entailed numerous other changes in structure, technology, and people. When changes are needed, who makes them happen? Who manages them? Although you may think that it's just top-level managers, actually managers at *all* organizational levels are involved in the change process.

Even with the involvement of all levels of managers, change efforts don't always work the way they should. In fact, a global study of organizational change concluded that "Hundreds of managers from scores of U.S. and European companies [are] satisfied with their operating prowess . . . [but] dissatisfied with their ability to implement change."[41] How can managers make change happen successfully? They can (1) make the organization change capable, (2) understand their own role in the process, and (3) give individual employees a role in the change process. Let's look at each of these suggestions.

In an industry where growth is slowing and competitors are becoming stronger, United Parcel Service (UPS) prospers. How? By embracing change! Managers spent a decade creating new worldwide logistics businesses because they anticipated slowing domestic shipping demand. They continue change efforts in order to exploit new opportunities.[42] UPS is what we call a change-capable organization. What does it take to be a change-capable organization? Exhibit 6-8 summarizes the characteristics.

The second component of making change happen successfully is for managers to recognize their own important role in the process. Managers can, and do, act as change agents. But their role in the change process includes more than being catalysts for change; they must also be change leaders. When organizational members resist change, it's the manager's responsibility to lead the change effort. But even when there's no resistance to the change, someone has to assume leadership. That someone is managers.

EXHIBIT 6-8
Change-Capable Organizations

- *Link the present and the future*. Think of work as more than an extension of the past; think about future opportunities and issues and factor them into today's decisions.
- *Make learning a way of life*. Change-friendly organizations excel at knowledge sharing and management.
- *Actively support and encourage day-to-day improvements and changes*. Successful change can come from the small changes as well as the big ones.
- *Ensure diverse teams*. Diversity ensures that things won't be done like they've always been done.
- *Encourage mavericks*. Because their ideas and approaches are outside the mainstream, mavericks can help bring about radical change.
- *Shelter breakthroughs*. Change-friendly organizations have found ways to protect those breakthrough ideas.
- *Integrate technology*. Use technology to implement changes.
- *Build and deepen trust*. People are more likely to support changes when the organization's culture is trusting and managers have credibility and integrity.
- *Couple permanence with perpetual change.* Because change is the only constant, companies need to figure out how to protect their core strengths during times of change.
- *Support an entrepreneurial mindset.* Many younger employees bring a more entrepreneurial mindset to organizations and can serve as catalysts for radical change.

Sources: Based on S. Ante, "Change Is Good—So Get Used to It," *BusinessWeek,* June 22, 2009, pp. 69–70; and P. A. McLagan, "The Change-Capable Organization," *T&D,* January 2003, pp. 50–59.

The final aspect of making change happen successfully revolves around getting all organizational members involved. Successful organizational change is not a one-person job. Individual employees are a powerful resource in identifying and addressing change issues. "If you develop a program for change and simply hand it to your people, saying, 'Here, implement this,' it's unlikely to work. But when people help to build something, they will support it and make it work."[43] Managers need to encourage employees to be change agents—to look for those day-to-day improvements and changes that individuals and teams can make. For instance, a study of organizational change found that 77 percent of changes at the work group level were reactions to a specific, current problem or to a suggestion from someone outside the work group; and 68 percent of those changes occurred in the course of employees' day-to-day work.[44]

Stimulating Innovation

6.5 LEARNING OUTCOME
Describe techniques for stimulating innovation.

"Innovation is the key to continued success." "We innovate today to secure the future."[45] These two quotes (the first by Ajay Banga, the newly appointed CEO of MasterCard, and the second by Sophie Vandebroek, chief technology officer of Xerox Innovation Group) reflect how important innovation is to organizations. Success in business today demands innovation. In the dynamic, chaotic world of global competition, organizations must create new products and services and adopt state-of-the-art technology if they're going to compete successfully.[46]

What companies come to mind when you think of successful innovators? Maybe it's Apple with its iPad, iPhone, iPod, and wide array of computers. Maybe it's Google with its continually evolving web platform. Google, for instance, is a good example of the new, faster face of innovation. The company runs 50 to 200 online search experiments with users at any given time. In one instance, Google asked selected users how many search results they'd like to see on a single screen. The reply from the users was more, many more. So Google ran an experiment that tripled the number of search results per screen to 30. The result: traffic declined because "it took about a third of a second longer for search results to appear—a seemingly insignificant delay that nonetheless upset many of the users."[47] Google tried something new and quickly found out it wasn't something they wanted to pursue. Even Procter & Gamble, the global household and personal products giant, is doing the

EXHIBIT 6-9
World's Most Innovative Companies

Fast Company's Top 10 List	*Bloomberg BusinessWeek's* Top 10 List
Facebook	Apple
Amazon.com	Google
Apple	Microsoft
Google	IBM
Huawei	Toyota Motor
First Solar	Amazon.com
Pacific Gas &Electric	LG Electronics
Novartis	BYD
Walmart	General Electric
Hewlett-Packard	Sony

Sources: *Fast Company* Staff, "The World's 50 Most Innovative Companies," *Fast Company,* March 2010, pp. 52+; and M. Arndt and B. Einhorn, "The 50 Most Innovative Companies," *Bloomberg BusinessWeek,* April 25, 2010, pp. 34–40.

"vast majority of our concept testing online, which has created truly substantial savings in money and time," according to the company's global consumer and market knowledge officer.[48] (See Exhibit 6-9 for a list of companies named as most innovative in the world.) What's the secret to the success of these innovator champions? What can other managers do to make their organizations more innovative? In the following pages, we'll try to answer those questions as we discuss the factors behind innovation.

Creativity Versus Innovation

Creativity refers to the ability to combine ideas in a unique way or to make unusual associations between ideas.[49] A creative organization develops unique ways of working or novel solutions to problems. But creativity by itself isn't enough. The outcomes of the creative process need to be turned into useful products or work methods, which is defined as **innovation**. Thus, the innovative organization is characterized by its ability to channel creativity into useful outcomes. When managers talk about changing an organization to make it more creative, they usually mean they want to stimulate and nurture innovation.

Stimulating and Nurturing Innovation

The systems model can help us understand how organizations become more innovative.[50] Getting the desired outputs (innovative products and work methods) involves transforming inputs. These inputs include creative people and groups within the organization. But having creative people isn't enough. It takes the right environment to help transform those inputs into innovative products or work methods. This "right" environment—that is, an environment that stimulates innovation—includes three variables: the organization's structure, culture, and human resource practices. (See Exhibit 6-10.)

STRUCTURAL VARIABLES. When Carol Bartz joined Yahoo! Inc. as CEO, one of the first things she noticed was how the organization's structure got in the way of innovation. Employees who wanted to try something different were unsure about whether they got to make the decision or somebody else did and what would happen if they went for it. Bartz's philosophy was that "There's a freedom when you organize around the idea that you're clearly in charge and go for it." Today, Yahoo!'s structure has been changed so that it provides clearer lines of responsibility and the freedom to make mistakes.[51]

An organization's structure can have a huge impact on innovativeness. Research into the effect of structural variables on innovation shows five things.[52] First, an organic-type structure

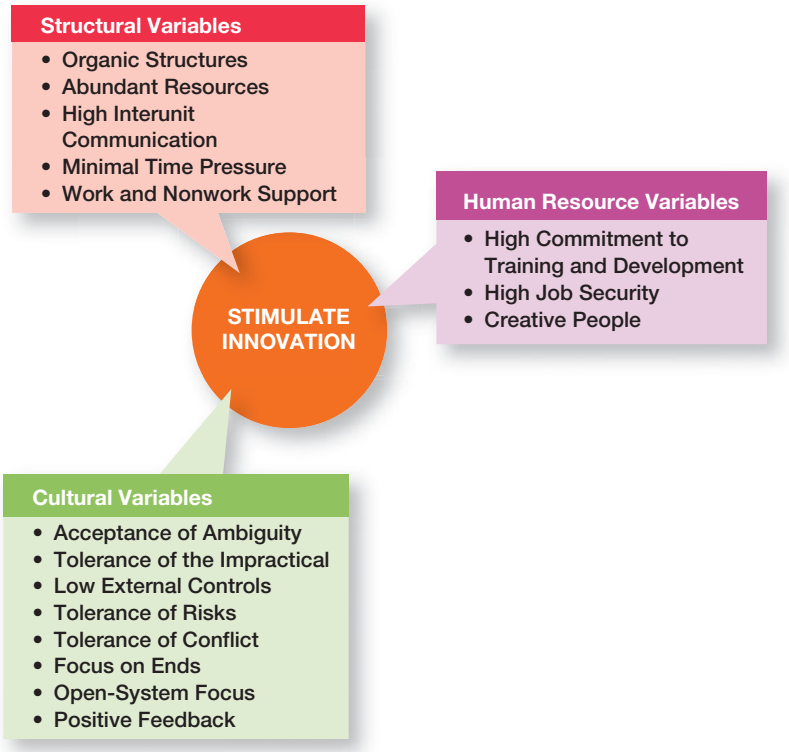
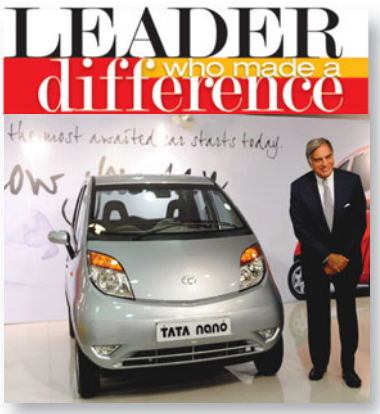


EXHIBIT 6-10
Innovation Variables

positively influences innovation. Because this structure is low in formalization, centralization, and work specialization, it facilitates the flexibility and sharing of ideas that are critical to innovation. Second, the availability of plentiful resources provides a key building block for innovation. With an abundance of resources, managers can afford to purchase innovations, can afford the cost of instituting innovations, and can absorb failures. For example, at Smart Balance Inc., the heart-healthy food developer uses its resources efficiently by focusing on product development and outsourcing almost everything else including manufacturing, product distribution, and sales. The company's CEO says that this approach allows them to be "a pretty aggressive innovator" even during economic downturns.[53] Third, frequent communication between organizational units helps break down barriers to innovation.[54] Cross-functional teams, task forces, and other such organizational designs facilitate interaction across departmental lines and are widely used in innovative organizations. For instance, Pitney Bowes, the mail and documents company, uses an electronic meeting place called IdeaNet where its 35,000-plus employees can collaborate and provide comments and input on any idea they think will help create new sources of revenue, improve profitability, or add new value for customers. IdeaNet isn't just an electronic suggestion box or open forum; employees are presented with specific idea challenges. A recent one involved how to expand its mail service business into new segments. Hundreds of employees from multiple functions and business units weighed in with ideas and eight promising ideas were generated.[55] Fourth, innovative organizations try to minimize extreme time pressures on creative activities despite the demands of white-water rapids environments. Although time pressures may spur people to work harder and may make them feel more creative, studies show that it actually causes them to be less creative.[56] Companies such as Google, 3M, and Hewlett-Packard actually urge staff researchers to spend a chunk of their workweek on self-initiated projects, even if those

creativity
The ability to combine ideas in a unique way or to make unusual associations between ideas

innovation
Taking creative ideas and turning them into useful products or work methods



Ratan Tata, chairman of both Tata Group and Tata Motors, has built one of the world's largest conglomerates.[59] When India's long-protected economy was opened in 1981, Tata decided that for his myriad companies to survive and thrive in a global economy, he had to "make innovation a priority and build it into the DNA of the Tata Group so that every employee at every company might think and act like an innovator." One unique way innovation is encouraged at Tata is an internal innovation competition. Teams from units of the Indian conglomerate are presented with a challenge and prepare projects that are presented at the global finals at headquarters in Mumbai. Last year, 1,700 employee teams registered for the competition. The winners get no cash, only awards such as the Tata's Promising Innovation Award or the Dare to Try Award. The real prize for employees is the respect and recognition of Tata's leadership. However, the biggest winner is probably the company itself.

projects are outside the individual's work area of expertise.[57] Finally, studies have shown that an employee's creative performance was enhanced when an organization's structure explicitly supported creativity. Beneficial kinds of support included things like encouragement, open communication, readiness to listen, and useful feedback.[58]

CULTURAL VARIABLES. "Throw the bunny" is part of the lingo used by a product development team at toy company Mattel. It refers to a juggling lesson where team members learn to juggle two balls and a stuffed bunny. Most people easily learn to juggle two balls but can't let go of that third object. Creativity, like juggling, is learning to let go—that is, to "throw the bunny." And for Mattel, having a culture where people are encouraged to "throw the bunny" is important to its continued product innovations.[60]

Innovative organizations tend to have similar cultures.[61] They encourage experimentation, reward both successes and failures, and celebrate mistakes. An innovative organization is likely to have the following characteristics.

- *Accept ambiguity.* Too much emphasis on objectivity and specificity constrains creativity.
- *Tolerate the impractical.* Individuals who offer impractical, even foolish, answers to what-if questions are not stifled. What at first seems impractical might lead to innovative solutions.
- *Keep external controls minimal.* Rules, regulations, policies, and similar organizational controls are kept to a minimum.
- *Tolerate risk.* Employees are encouraged to experiment without fear of consequences should they fail. Mistakes are treated as learning opportunities. You don't want your employees to fear putting forth new ideas. A recent study found that one fear employees have is that their coworkers will think negatively of them if they try to come up with better ways of doing things. Another fear is that they'll "provoke anger among others who are comfortable with the status quo."[62] In an innovative culture, such fears are not an issue.
- *Tolerate conflict.* Diversity of opinions is encouraged. Harmony and agreement between individuals or units are *not* assumed to be evidence of high performance.
- *Focus on ends rather than means.* Goals are made clear, and individuals are encouraged to consider alternative routes toward meeting the goals. Focusing on ends suggests that several right answers might be possible for any given problem.
- *Use an open-system focus.* Managers closely monitor the environment and respond to changes as they occur. For example, at Starbucks, product development depends on "inspiration field trips to view customers and trends." Michelle Gass, now the company's senior vice president of global strategy, "took her team to Paris, Düsseldorf, and London to visit local Starbucks and other restaurants to get a better sense of local cultures, behaviors, and fashions." She says, "You come back just full of different ideas and different ways to think about things than you would had you read about it in a magazine or e-mail."[63]
- *Provide positive feedback.* Managers provide positive feedback, encouragement, and support so employees feel that their creative ideas receive attention. For instance, at

idea champion
Individuals who actively and enthusiastically support new ideas, build support, overcome resistance, and ensure that innovations are implemented

Research in Motion, Mike Lazaridis, president and co-CEO says, "I think we have a culture of innovation here, and [engineers] have absolute access to me. I live a life that tries to promote innovation."[64]

- *Exhibit empowering leadership.* Be a leader who lets organizational members know that the work they do is significant. Provide organizational members the opportunity to participate in decision making. Show them that you're confident they can achieve high performance levels and outcomes. Being this type of leader will have a positive influence on creativity.[65]

HUMAN RESOURCE VARIABLES. In this category, we find that innovative organizations actively promote the training and development of their members so their knowledge remains current; offer their employees high job security to reduce the fear of getting fired for making mistakes; and encourage individuals to become **idea champions**, actively and enthusiastically supporting new ideas, building support, overcoming resistance, and ensuring that innovations are implemented. Research finds that idea champions have common personality characteristics: extremely high self-confidence, persistence, energy, and a tendency toward risk taking. They also display characteristics associated with dynamic leadership. They inspire and energize others with their vision of the potential of an innovation and through their strong personal conviction in their mission. They're also good at gaining the commitment of others to support their mission. In addition, idea champions have jobs that provide considerable decision-making discretion. This autonomy helps them introduce and implement innovations in organizations.[66]

Let's Get Real:

My Response *to A Manager's Dilemma, page 152*

I would motivate the employees by invoking cultural icons that they readily recognize: (1) NASA employees are familiar with the concept of a strategic mission, e.g. "going to the moon"; and (2) United States is known for its entrepreneurial spirit. I would explain to the staff that this is not the end of an era but the beginning of a new and exciting era of commercialized space travel. Their experience with the space program gives them a unique position to capitalize on this next era. Their personal mission should be to continue to do their job to their best of their abilities while looking for entrepreneurial opportunities.

I would then enable their personal mission by organizing business planning and management training at night, forums for investors and advanced technology companies to meet employees, and so on.

One potential risk with this approach is that if the strategy is too successful, employees may want to leave early. To mitigate the risk, you can create a bonus plan to motivate people to stay until the end of the space shuttle program.

What Would You Do?

Reginald Lo
Vice President of Professional Services
Third Sky, Inc.
Alameda, CA

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 6.1

Compare and contrast views on the change process.

The calm waters metaphor suggests that change is an occasional disruption in the normal flow of events and can be planned and managed as it happens. In the white-water rapids metaphor, change is ongoing and managing it is a continual process.

Lewin's three-step model says change can be managed by unfreezing the status quo (old behaviors), changing to a new state, and refreezing the new behaviors.

LEARNING OUTCOME 6.2

Classify types of organizational change.

Organizational change is any alteration of people, structure, or technology. Making changes often requires a change agent to act as a catalyst and guide the change process.

Changing structure involves any changes in structural components or structural design. Changing technology involves introducing new equipment, tools, or methods; automation; or computerization. Changing people involves changing attitudes, expectations, perceptions, and behaviors.

LEARNING OUTCOME 6.3

Explain how to manage resistance to change.

People resist change because of uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.

The techniques for reducing resistance to change include education and communication (educating employees about and communicating to them the need for the change), participation (allowing employees to participate in the change process), facilitation and support (giving employees the support they need to implement the change), negotiation (exchanging something of value to reduce resistance), manipulation and co-optation (using negative actions to influence), and coercion (using direct threats or force).

LEARNING OUTCOME 6.4

Discuss contemporary issues in managing change.

The shared values that comprise an organization's culture are relatively stable, which makes it difficult to change. Managers can do so by being positive role models; creating new stories, symbols, and rituals; selecting, promoting, and supporting employees who adopt the new values; redesigning socialization processes; changing the reward system, clearly specifying expectations; shaking up current subcultures; and getting employees to participate in change.

Stress is the adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities. To help employees deal with stress, managers can address job-related factors by making sure an employee's abilities match the job requirements, improve organizational communications, use a performance planning program, or redesign jobs. Addressing personal stress factors is trickier, but managers could offer employee counseling, time management programs, and wellness programs.

Making change happen successfully involves focusing on making the organization change capable, making sure managers understand their own role in the process, and giving individual employees a role in the process.

Describe techniques for stimulating innovation.

LEARNING OUTCOME 6.5

Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Innovation is turning the outcomes of the creative process into useful products or work methods.

Important structural variables include an organic-type structure, abundant resources, frequent communication between organizational units, minimal time pressure, and support. Important cultural variables include accepting ambiguity, tolerating the impractical, keeping external controls minimal, tolerating risk, tolerating conflict, focusing on ends not means, using an open-system focus, providing positive feedback, and being an empowering leader. Important human resource variables include high commitment to training and development, high job security, and encouraging individuals to be idea champions.

mymanagementlab

To check your understanding of learning outcomes 6.1 – 6.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Contrast the calm waters and white-water rapids metaphors of change.
2. Explain Lewin's three-step model of the change process.
3. Describe how managers might change structure, technology, and people.
4. Can a low-level employee be a change agent? Explain your answer.
5. Why do people resist change? How can resistance to change be reduced?
6. How are opportunities, constraints, and demands related to stress? Give an example of each.
7. Planned change is often thought to be the best approach to take in organizations. Can unplanned change ever be effective? Explain.
8. Organizations typically have limits to how much change they can absorb. As a manager, what signs would you look for that might suggest that your organization has exceeded its capacity to change?
9. Describe the structural, cultural, and human resources variables that are necessary for innovation.
10. Innovation requires allowing people to make mistakes. However, being wrong too many times can be disastrous to your career. Do you agree? Why or why not? What are the implications for nurturing innovation?

PREPARING FOR: My Career

ETHICS DILEMMA

One in five companies offers some form of stress management program.[67] Although these programs are available, many employees may choose not to participate. Why? Many employees are reluctant to ask for help, especially if a major source of that stress is job insecurity. After all, there's still a stigma associated with stress. Employees don't want to be perceived as being unable to handle the demands of their job. Although they may need stress management now more than ever, few employees want to admit that they're stressed. What can be done about this paradox? Do organizations even *have* an ethical responsibility to help employees deal with stress?

SKILLS EXERCISE

Developing Your Change Management Skill

About the Skill

Managers play an important role in organizational change. That is, they often serve as a catalyst for the change—a change agent. However, managers may find that change is resisted by employees. After all, change represents ambiguity and uncertainty, or it threatens the status quo. How can this resistance to change be effectively managed? Here are some suggestions.[68]

Steps in Practicing the Skill

1. *Assess the climate for change.* One major factor in why some changes succeed while others fail is the readiness for change. Assessing the climate for change involves asking several questions. The more affirmative answers you get, the more likely it is that change efforts will succeed. Here are some guiding questions:
   a. Is the sponsor of the change high enough in the organization to have power to effectively deal with resistance?
   b. Is senior management supportive of the change and committed to it?
   c. Do senior managers convey the need for change, and is this feeling shared by others in the organization?
   d. Do managers have a clear vision of how the future will look after the change?
   e. Are objective measures in place to evaluate the change effort, and have reward systems been explicitly designed to reinforce them?
   f. Is the specific change effort consistent with other changes going on in the organization?
   g. Are managers willing to sacrifice their personal self-interests for the good of the organization as a whole?
   h. Do managers pride themselves on closely monitoring changes and actions by competitors?
   i. Are managers and employees rewarded for taking risks, being innovative, and looking for new and better solutions?
   j. Is the organizational structure flexible?
   k. Does communication flow both down and up in the organization?
   l. Has the organization successfully implemented changes in the past?
   m. Are employees satisfied with and do they trust management?
   n. Is a high degree of interaction and cooperation typical between organizational work units?
   o. Are decisions made quickly and do they take into account a wide variety of suggestions?
2. *Choose an appropriate approach for managing the resistance to change.* In this chapter, six strategies have been suggested for dealing with resistance to change—education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. Review Exhibit 6-5 (p. 159) for the advantages and disadvantages and when it is best to use each approach.
3. *During the time the change is being implemented and after the change is completed, communicate with employees regarding what support you may be able to provide.* Your employees need to know that you are there to support them during change efforts. Be prepared to offer the assistance that may be necessary to help them enact the change.

Practicing the Skill

Read through the following scenario. Write down some notes about how you would handle the situation described. Be sure to refer to the three suggestions for managing resistance to change.

You're the nursing supervisor at a community hospital employing both emergency room and floor nurses. Each of these teams of nurses tends to work almost exclusively with others doing the same job. In your professional reading, you've come across the concept of cross-training nursing teams and giving them more varied responsibilities, which in turn has been shown to improve patient care while lowering costs. You call the two team leaders, Sue and Scott, into your office to discuss your plan to have the nursing teams move to this approach. To your surprise, they're both opposed to the idea. Sue says she and the other emergency room nurses feel they're needed in the ER, where they fill the most vital role in the hospital. They work special hours when needed, do whatever tasks are required, and often work in difficult and stressful circumstances. They think the floor nurses have relatively easy jobs for the pay they receive. Scott, leader of the floor nurses team, tells you that his group believes the ER nurses lack the special training and extra experience that the floor nurses bring to the hospital. The floor nurses claim they have the heaviest responsibilities and do the most exacting work. Because they have ongoing contact with the patients and their families, they believe they shouldn't be pulled away from vital floor duties to help ER nurses complete their tasks. Now . . . what would you do?

WORKING TOGETHER

Team Exercise

It's expected that by 2011 almost every country around the world already will be using or in the process of changing to International Financial Reporting Standards, also known as IFRS.[69] In the United States where Generally Accepted Accounting Principles (GAAP) have been the standard for decades, the move to IFRS will involve significant changes at both accounting services firms and other business firms who must now adhere to the new standards.

Form teams of 3–4 people. Your team is responsible for planning how to proceed with this change at your accounting firm. What will need to be done to ensure that this conversion goes as smoothly as possible? Use the following two topic areas to guide you in planning this change for your professional CPA staff: (1) using communication channels to engage and inform employees, and (2) building needed skills and capabilities. Come up with a change plan that addresses each of these issues.

MY TURN TO BE A MANAGER

- Take responsibility for your own future career path. Don't depend on your employer to provide you with career development and training opportunities. Right now, sign up for things that will help you enhance your skills—workshops, seminars, continuing education courses, etc.
- Pay attention to how you handle change. Try to figure out why you resist certain changes and not others.
- Pay attention to how others around you handle change. When friends or family resist change, practice using different approaches to managing this resistance to change.
- When you find yourself experiencing dysfunctional stress, write down what's causing the stress, what stress symptoms you're exhibiting, and how you're dealing with the stress. Keep this information in a journal and evaluate how well your stress reducers are working and how you could handle stress better. Your goal is to get to a point where you recognize that you're stressed and can take positive actions to deal with the stress.
- Research information on how to be a more creative person. Write down suggestions in a bulleted-list format and be prepared to present your information in class.
- Is innovation more about (1) stopping something old, or (2) starting something new? Prepare arguments supporting or challenging each view.
- Choose two organizations that you're familiar with and assess whether these organizations face a calm waters or white-water rapids environment. Write a short report describing these organizations and your assessment of the change environment each faces. Be sure to explain your choice of change environment.
- Steve's and Mary's recommended readings: C. S. Dawson, *Leading Culture Change: What Every CEO Needs to Know* (Stanford University Press, 2010); C. Heath and D. Heath, *Switch: How to Change When Change Is Hard* (Broadway Books, 2010); T. Brown, *Change by Design: How Design Thinking Transforms Organizations and Inspires Creativity* (HarperBusiness, 2009); D. K. Murray, *Borrowing Brilliance: The Six Steps to Business Innovation by Building on the Ideas of Others* (Gotham, 2009); Malcolm Gladwell, *Blink* (Little, Brown, 2005); Peter Senge et al., *Presence* (Doubleday, 2004); Tom Peters, *Re-Imagine!* (Dorling Kindersely, 2003); John P. Kotter and Dan S. Cohen, *The Heart of Change* (Harvard Business School Press, 2002); Malcolm Gladwell, *The Tipping Point* (Back Bay Books, 2002); Tom Kelley, *The Art of Innovation* (Doubleday, 2001); and Ian Morrison, *The Second Curve* (Ballantine Books, 1996).
- Choose an organization with which you're familiar (employer, student organization, family business, etc.). Describe its culture (shared values and beliefs). Select two of those values/beliefs and describe how you would go about changing them. Put this information in a report.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Well Do I Handle Ambiguity? How Creative Am I? How Well Do I Respond to Turbulent Change? How Stressed Is My Life? Am I Burned Out? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Too Big to Change?

GM's former CEO Ed Whitacre celebrates with employees during his announcement that the company repaid its government loans in full and ahead of schedule as a result of management's efforts to change GM's bureaucratic culture.

No one could have imagined it. After all these years, many thought it was too big to fail. Yet, on June 1, 2009, General Motors Corporation (GM) filed for Chapter 11 bankruptcy protection, the second-largest industrial bankruptcy in history (WorldCom was the largest).[70] GM, which hadn't made a profit since 2004, declared in its filing that it had $172 billion in debt and $82 billion in assets. As any competent business student could tell you, that ratio doesn't make a balance sheet balance, especially when the company's equity is worth little.

Fritz Henderson, who was named CEO of GM on March 30, 2009, was a numbers guy, but he knew the company's culture had to change. His vision of the new organizational culture revolved around four guidelines: risk taking, accountability, speed, and customer-product focus. The problem was that GM had tried before to reinvent itself, with mixed success. "GM's past is littered with the buzzwords of culture change. . . . It has struggled to impose cultural change across the highly bureaucratic company in which brands, departments, and regions operated like self-governing and competing states within a federation." But, GM's executives said, this time would be different. After all, there was the bankruptcy and the selective elimination of entrenched leadership. Were things really changing, though? Despite his well-intentioned plans, Henderson was fired by the board on December 1, 2009. Some felt he wasn't radical enough to change the company. His replacement was the person appointed by the Obama administration's car czar to oversee the automaker's revival after bankruptcy, Ed Whitacre, the well-respected retired chairman and CEO of AT&T.

The challenges Whitacre faces in changing GM's "plodding" culture are vast. A recent meeting of the CEO and other top executives illustrates why. The meeting was called to approve plans for a new generation of cars and trucks. Before the executives could go through all the pictures, charts, and financial projections they had prepared, Whitacre stopped them to ask why they were having the meeting in the first place. "Y'all have checked all this out pretty thoroughly. I imagine you're not going to approve something that's bad or unprofitable, so why don't you make the final decisions?" He let the plans stand and suggested that the group disband its regular Friday sessions. And it's not just the top executives who did this. In the past, even minor decisions were mulled over by committee after committee. Whitacre's trying to change that. Pushing authority and decision making down into GM's multilayered organization and slicing away at the bureaucracy are big parts of the cultural changes Whitacre is attempting. Changing GM's entrenched corporate culture isn't going to be easy, but it is necessary if GM is going to become the automotive icon it once was.

With the changes Whitacre initiated, GM achieved profitability in the first two quarters of 2010. As was his intent all along, Whitacre stepped down as CEO in early August 2010 and was replaced by Daniel Akerson, a member of the company's board of directors.

Discussion Questions

1. How would you describe the organizational culture at GM? Why was decision making so slow—"plodding" as one analyst described it?
2. Why do you think the previous CEO's (Mr. Henderson) attempts to change the organizational culture might have been lacking?
3. What changes is Mr. Whitacre making to the culture of GM?
4. What types of resistance is he likely to encounter? Using Exhibit 6-5, what would be the best ways to address that resistance? Be specific.

CASE APPLICATION 2

Stress Kills

We know that too much stress can be bad for our health and well-being. That connection became even more painfully and tragically obvious at France Télécom.[71] Since early 2008, more than 40 people who worked for the company committed suicide. The situation captured the attention of the worldwide media, the public, and the French government because many of the suicides and more than a dozen failed suicide attempts have been attributed to work-related problems. Although France has a higher suicide rate than any other large Western country, this scenario is particularly troublesome. So much so, that the Paris prosecutor's office opened an investigation of the company over accusations of psychological harassment. The judicial inquiry stems from a complaint by the union Solidares Unitaires Démocratiques against France Télécom's former chief executive and two members of his top management team. The complaint accused management of conducting a "pathogenic restructuring." Excerpts of the inspector's report, although it's not public, have been published in the French media. It describes a situation in which the company used various forms of psychological pressure in an effort to eliminate 22,000 jobs from 2006 to 2008. Company doctors alerted management about the possible psychological dangers of the stress that could accompany such drastic change. "The spate of suicides has highlighted a quirk at the heart of French society: Even with robust labor protection, workers see themselves as profoundly insecure in the face of globalization, with many complaining about being pushed beyond their limits." A company lawyer denied that France Télécom had systematically pressured employees to leave.

Company executives have realized that they need to take drastic measures to address the issue. One of the first changes was a new CEO, Stéphane Richard, who said his priority "would be to rebuild the morale of staff who have been through trauma, suffering and much worse." The company halted some workplace practices identified as being particularly disruptive, like involuntary transfers, and began encouraging more supportive practices, including working from home. A company spokesperson says the company has completed two of six agreements with unions that cover a wide range of workplace issues such as mobility, work-life balance, and stress.

Discussion Questions

1. What is your reaction to the situation described in this case? What factors, both inside the company and externally, appear to have contributed to this situation?
2. What appeared to be happening in the France Télécom's workplace? What stress symptoms might have alerted managers to a problem?
3. Should managers be free to make decisions that are in the best interests of the company without worrying about employee reactions? Discuss. What are the implications for managing change?
4. What are France Télécom's executives doing to address the situation? Do you think it's enough? Are there other actions they might take? If so, describe those actions. If not, why not?
5. What could other companies and managers learn from this situation?

7 CHAPTER

Let's Get Real:

You'll be hearing more from this real manager throughout the chapter.

Meet the Manager

Tiffany Eulinger

Area Manager
Buckle
Kansas City, MO

MY JOB:

I am an area manager for the Buckle, and I work with medium and high-end fashion clothing products. I educate and train my teammates in various ways to present the product to the guest. At the Buckle, we have a free flow merchandise plan that allows us to market and merchandise the product in numerous ways. As a manager, I wear many different hats that include merchandising, hiring, interviewing, recruiting, training, and reviewing.

BEST PART OF MY JOB:

Fashion is always changing and evolving, which allows me to always change with it. Also, the Buckle treats me like an entrepreneur and allows me to make my own business decisions. They provide the product and the location for me. Plus, working in retail is fun. You are always interacting with the guest and your own teammates. I have been fortunate to see some of my management trainees move on and become store managers. It is really rewarding to see people grow with the company.

Managers *as* Decision Makers

7.1 **Describe** the eight steps in the decision-making process. *page 178*

7.2 **Explain** the four ways managers make decisions. *page 182*

7.3 **Classify** decisions and decision-making conditions. *page 185*

7.4 **Describe** different decision-making styles and discuss how biases affect decision making. *page 190*

7.5 **Identify** effective decision-making techniques. *page 192*

LEARNING OUTCOMES

WORST PART OF MY JOB:

There really is no bad part about working in retail. Sometimes the things you don't find the most enjoyable are just part of the job. Finding the right people and motivating them to always strive to do their best would be one thing that is a struggle in the store.

As a store manager, it is my job to be at the top of my game at all times. Sometimes other teammates need that motivation to get better, and they don't always understand that they should be ready to work and make a difference the moment they clock in.

BEST MANAGEMENT ADVICE EVER RECEIVED:

"You can recruit yourself out of any situation." This is the advice that always stays with me because in retail, people are always changing and sometimes when business isn't where you need it to be, you might want to take a good look at the team. You just may have to hire new teammates who will help take your store to the next level.

A Manager's Dilemma

It is one of the most highly anticipated theme park entertainment experiences ever, and it was created around the characters, settings, and locations of one of the most popular book series in recent memory.[1] The seven-book Harry Potter series has sold more than 400 million copies and has been translated into more than 67 languages. The movies have made more than $5.3 billion. Now enter the over-$200 million Wizarding World of Harry Potter at Universal Orlando Resort, which opened in June 2010, much to the delight of fans.

The attraction was designed to be unlike any ever created. It's a "revolutionary 360-degree theme park experience with a first-ever combination of live-action, advanced robotic technology, and innovative filmmaking." The president of Universal Creative says, "We have created an entirely new way to place our guests into one of the most compelling stories of our time. What we have done will forever change the theme park attraction experience."

Even though the Potter-themed attraction would seem to be a "slam-dunk proposition," Thierry Coup, Universal's vice president for creative development, recognizes that there's no guarantee of success. What decision criteria might Thierry use to evaluate the effectiveness of the decision to create this attraction?

What Would You Do?

Like managers everywhere, Thierry Coup needs to make decisions as he manages. Decision making is the essence of management. It's what managers do (or try to avoid). And all managers would like to make good decisions because they're judged on the outcomes of those decisions. In this chapter, we examine the concept of decision making and how managers make decisions.

LEARNING OUTCOME 7.1
Describe the eight steps in the decision-making process.

The Decision-Making Process

It was the type of day that airline managers dread. A record-setting blizzard was moving up the East Coast, covering roads, railroads, and airport runways with as much as 27 inches of snow. One of the major airlines that would have to deal with the storm, American Airlines, "has almost 80,000 employees who help make flights possible and four who cancel them." Danny Burgin, who works at the company's Fort Worth, Texas, control center, is one of those four. But fortunately for Danny, snowstorms are fairly simple to deal with because they're usually "easier to predict and airline crews can work around them quickly with deicers and snowplows." But still, even this doesn't mean that the decisions he has to make are easy, especially when his decisions affect hundreds of flights and thousands of passengers![2] Although most decisions managers make don't involve the weather, you can see that decisions play an important role in what an organization has to do or is able to do.

Managers at all levels and in all areas of organizations make **decisions**. That is, they make choices. For instance, top-level managers make decisions about their organization's goals, where to locate manufacturing facilities, or what new markets to move into. Middle and lower-level managers make decisions about production schedules, product quality problems, pay raises, and employee discipline. Making decisions isn't something that just managers do; all organizational members make decisions that affect their jobs and the organization they work for. But our focus in this chapter is on how *managers* make decisions.

Although decision making is typically described as choosing among alternatives, that view is too simplistic. Why? Because decision making is (and should be) a process, not just a simple act of choosing among alternatives.[3] Even for something as straightforward as deciding where to go for lunch, you do more than just choose burgers or pizza. Granted, you may not spend a lot of time contemplating your lunch decision, but you still go through the process when making that decision. Exhibit 7-1 shows the eight steps in the decision-making process. This process is as relevant to personal decisions as it is to

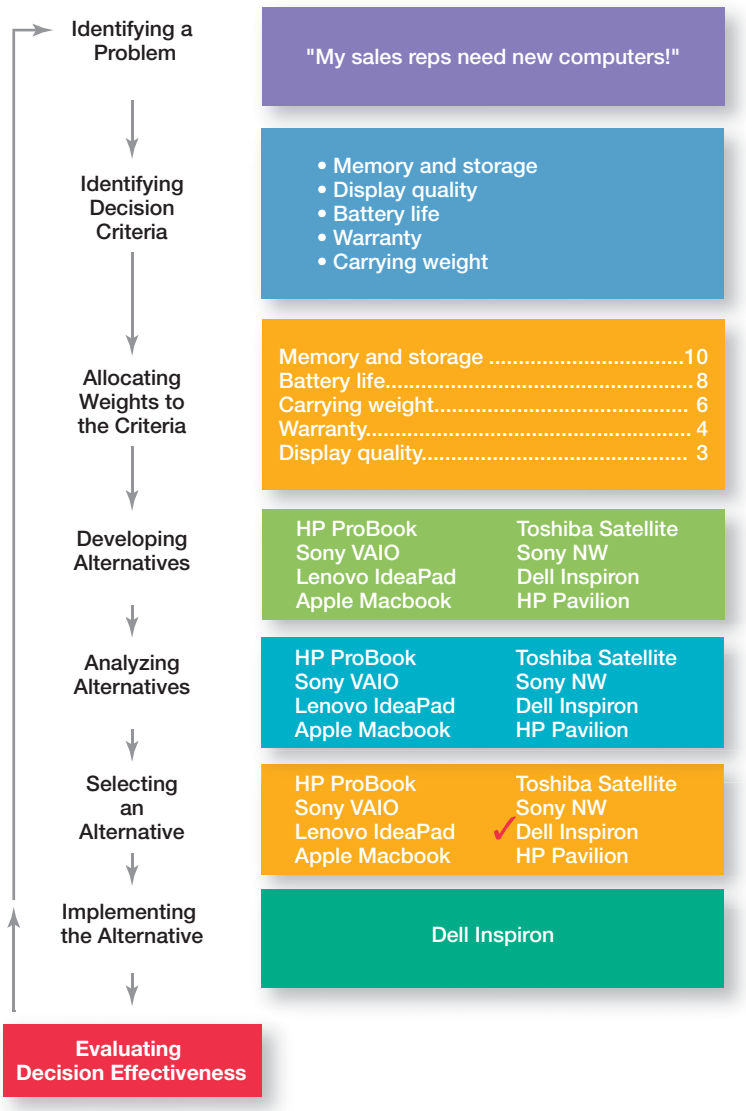


EXHIBIT 7-1
Decision-Making Process

corporate decisions. Let's use an example—a manager deciding what laptop computers to purchase—to illustrate the steps in the process.

Step 1: Identifying a Problem

Your team is dysfunctional, your customers are leaving, or your plans are no longer relevant.[4] Every decision starts with a **problem**, a discrepancy between an existing and a desired condition.[5] Amanda is a sales manager whose reps need new laptops because their old ones are outdated and inadequate for doing their job. To make it simple, assume it's not economical to add memory to the old computers and it's the company's policy to purchase, not lease. Now we have a problem—a disparity between the sales reps' current computers (existing condition) and their need to have more efficient ones (desired condition). Amanda has a decision to make.

How do managers identify problems? In the real world, most problems don't come with neon signs flashing "problem." When her reps started complaining about their computers,

decision
A choice among two or more alternatives

problem
An obstacle that makes it difficult to achieve a desired goal or purpose

Decision making is an eight-step process that begins with identifying a problem and ends with evaluating the outcome of the decision. After problem identification, managers must determine the decision criteria that are relevant to solving the problem. For a manager looking for new laptops for her sales reps, the decision criteria may include price, display quality, memory and storage capabilities, battery life, and carrying weight. After the manager identifies the criteria, she must assign weights to the criteria if they aren't equally important.

it was pretty clear to Amanda that something needed to be done, but few problems are that obvious. Managers also have to be cautious not to confuse problems with symptoms of the problem. Is a 5 percent drop in sales a problem? Or are declining sales merely a symptom of the real problem, such as poor-quality products, high prices, or bad advertising? Also, keep in mind that problem identification is subjective. What one manager considers a problem might not be considered a problem by another manager. In addition, a manager who resolves the wrong problem perfectly is likely to perform just as poorly as the manager who doesn't even recognize a problem and does nothing. As you can see, effectively identifying problems is important, but not easy.[6]

Step 2: Identifying Decision Criteria

Once a manager has identified a problem, he or she must identify the **decision criteria** that are important or relevant to resolving the problem. Every decision maker has criteria guiding his or her decisions even if they're not explicitly stated. In our example, Amanda decides after careful consideration that memory and storage capabilities, display quality, battery life, warranty, and carrying weight are the relevant criteria in her decision.

Step 3: Allocating Weights to the Criteria

If the relevant criteria aren't equally important, the decision maker must weight the items in order to give them the correct priority in the decision. How? A simple way is to give the most important criterion a weight of 10 and then assign weights to the rest using that standard. Of course, you could use any number as the highest weight. The weighted criteria for our example are shown in Exhibit 7-2.

EXHIBIT 7-2
Important Decision Criteria

Memory and storage	10
Battery life	8
Carrying weight	6
Warranty	4
Display quality	3

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
HP ProBook	10	3	10	8	5
Sony VAIO	8	7	7	8	7
Lenovo IdeaPad	8	5	7	10	10
Apple Macbook	8	7	7	8	7
Toshiba Satellite	7	8	7	8	7
Sony NW	8	3	6	10	8
Dell Inspiron	10	7	8	6	7
HP Pavilion	4	10	4	8	10

EXHIBIT 7-3
Possible Alternatives

Step 4: Developing Alternatives

The fourth step in the decision-making process requires the decision maker to list viable alternatives that could resolve the problem. In this step, a decision maker needs to be creative. And the alternatives are only listed, not evaluated just yet. Our sales manager, Amanda, identifies eight laptops as possible choices. (See Exhibit 7-3.)

Step 5: Analyzing Alternatives

Once alternatives have been identified, a decision maker must evaluate each one. How? By using the criteria established in Step 2. Exhibit 7-3 shows the assessed values that Amanda gave each alternative after doing some research on them. Keep in mind that these data represent an assessment of the eight alternatives using the decision criteria, but *not* the weighting. When you multiply each alternative by the assigned weight, you get the weighted alternatives as shown in Exhibit 7-4. The total score for each alternative, then, is the sum of its weighted criteria.

Sometimes a decision maker might be able to skip this step. If one alternative scores highest on every criterion, you wouldn't need to consider the weights because that alternative would already be the top choice. Or if the weights were all equal, you could evaluate an alternative merely by summing up the assessed values for each one. (Look again at Exhibit 7-3.) For example, the score for the HP ProBook would be 36 and the score for the Sony NW would be 35.

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
HP ProBook	100	24	60	32	15	231
Sony VAIO	80	56	42	32	21	231
Lenovo IdeaPad	80	40	42	40	30	232
Apple Macbook	80	56	42	32	21	231
Toshiba Satellite	70	64	42	32	21	229
Sony NW	80	24	36	40	24	204
Dell Inspiron	100	56	48	24	21	249
HP Pavilion	40	80	24	32	30	206

EXHIBIT 7-4
Evaluation of Alternatives

decision criteria
Criteria that define what's important or relevant to resolving a problem

Step 6: Selecting an Alternative

The sixth step in the decision-making process is choosing the best alternative or the one that generated the highest total in Step 5. In our example (Exhibit 7-4), Amanda would choose the Dell Inspiron because it scored higher than all other alternatives (249 total).

Step 7: Implementing the Alternative

In step 7 in the decision-making process, you put the decision into action by conveying it to those affected and getting their commitment to it. We know that if the people who must implement a decision participate in the process, they're more likely to support it than if you just tell them what to do. Another thing managers may need to do during implementation is reassess the environment for any changes, especially if it's a long-term decision. Are the criteria, alternatives, and choice still the best ones, or has the environment changed in such a way that we need to reevaluate?

Step 8: Evaluating Decision Effectiveness

The last step in the decision-making process involves evaluating the outcome or result of the decision to see whether the problem was resolved. If the evaluation shows that the problem still exists, then the manager needs to assess what went wrong. Was the problem incorrectly defined? Were errors made when evaluating alternatives? Was the right alternative selected but poorly implemented? The answers might lead you to redo an earlier step or might even require starting the whole process over.

LEARNING OUTCOME 7.2
Explain the four ways managers make decisions.

Managers Making Decisions

Although everyone in an organization makes decisions, decision making is particularly important to managers. As Exhibit 7-5 shows, it's part of all four managerial functions. In fact, that's why we say that decision making is the essence of management.[7] And that's why managers—when they plan, organize, lead, and control—are called *decision makers*.

EXHIBIT 7-5
Decisions Managers May Make

Planning
- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

Organizing
- How many employees should I have report directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Leading
- How do I handle employees who appear to be unmotivated?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

Controlling
- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

The fact that almost everything a manager does involves making decisions doesn't mean that decisions are always time-consuming, complex, or evident to an outside observer. Most decision making is routine. For instance, every day of the year you make a decision about what to eat for dinner. It's no big deal. You've made the decision thousands of times before. It's a pretty simple decision and can usually be handled quickly. It's the type of decision you almost forget *is* a decision. And managers also make dozens of these routine decisions every day, such as, for example, which employee will work what shift next week, what information should be included in a report, or how to resolve a customer's complaint. Keep in mind that even though a decision seems easy or has been faced by a manager a number of times before, it still is a decision. Let's look at four perspectives on how managers make decisions.

Making Decisions: Rationality

When Hewlett-Packard (HP) acquired Compaq, the company did no research on how customers viewed Compaq products until "months after then-CEO Carly Fiorina publicly announced the deal and privately warned her top management team that she didn't want to hear any dissent pertaining to the acquisition."[8] By the time they discovered that customers perceived Compaq products as inferior—just the opposite of what customers felt about HP products—it was too late. HP's performance suffered and Fiorina lost her job.

We assume that managers will use **rational decision making**; that is, they'll make logical and consistent choices to maximize value.[9] After all, managers have all sorts of tools and techniques to help them be rational decision makers. But as the HP example illustrates, managers aren't always rational. What does it mean to be a "rational" decision maker?

ASSUMPTIONS OF RATIONALITY. A rational decision maker would be fully objective and logical. The problem faced would be clear and unambiguous, and the decision maker would have a clear and specific goal and know all possible alternatives and consequences. Finally, making decisions rationally would consistently lead to selecting the alternative that maximizes the likelihood of achieving that goal. These assumptions apply to any decision—personal or managerial. However, for managerial decision making, we need to add one additional assumption—decisions are made in the best interests of the organization. These assumptions of rationality aren't very realistic, but the next concept can help explain how most decisions get made in organizations.

Making Decisions: Bounded Rationality

Despite the unrealistic assumptions, managers *are* expected to be rational when making decisions.[10] They understand that "good" decision makers are supposed to do certain things and exhibit good decision-making behaviors as they identify problems, consider alternatives, gather information, and act decisively but prudently. When they do so, they show others that they're competent and that their decisions are the result of intelligent deliberation. However, a more realistic approach to describing how managers make decisions is the concept of **bounded rationality**, which says that managers make decisions rationally, but are limited (bounded) by their ability to process information.[11] Because they can't possibly analyze all information on all alternatives, managers **satisfice**, rather than maximize. That is, they accept solutions that are "good enough." They're being rational within the limits (bounds) of their ability to process information. Let's look at an example.

Suppose that you're a finance major and upon graduation you want a job, preferably as a personal financial planner, with a minimum salary of $35,000 and within a hundred miles of your hometown. You accept a job offer as a business credit analyst—not exactly a personal

rational decision making
Describes choices that are logical and consistent and maximize value

bounded rationality
Decision making that's rational, but limited (bounded) by an individual's ability to process information

satisfice
Accept solutions that are "good enough"

financial planner but still in the finance field—at a bank 50 miles from home at a starting salary of $34,000. If you had done a more comprehensive job search, you would have discovered a job in personal financial planning at a trust company only 25 miles from your hometown and starting at a salary of $38,000. You weren't a perfectly rational decision maker because you didn't maximize your decision by searching all possible alternatives and then choosing the best. But because the first job offer was satisfactory (or "good enough"), you behaved in a bounded rationality manner by accepting it.

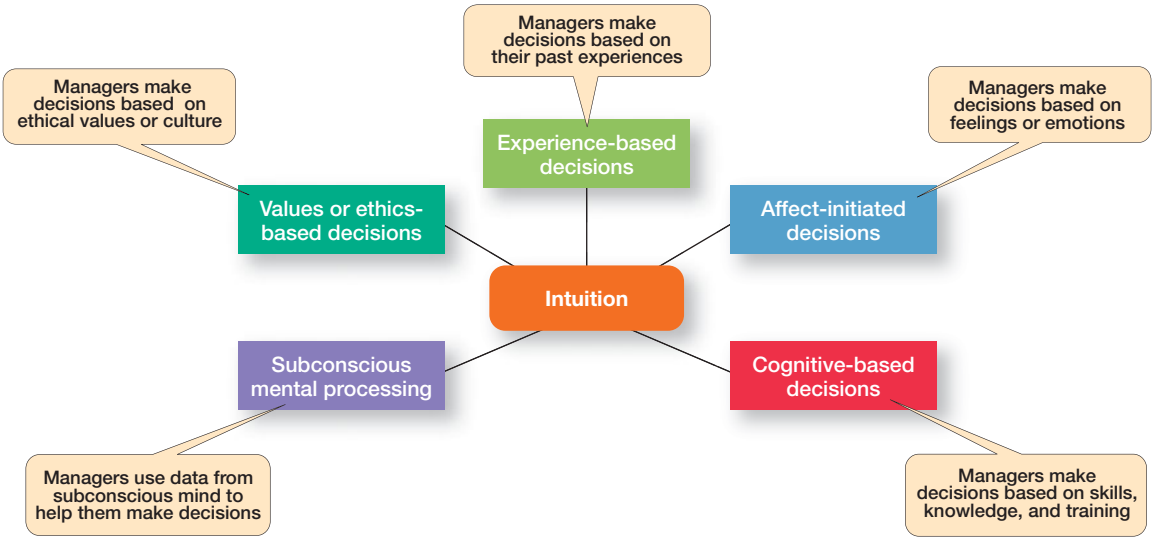
Most decisions that managers make don't fit the assumptions of perfect rationality, so they satisfice. However, keep in mind that their decision making is also likely influenced by the organization's culture, internal politics, power considerations, and by a phenomenon called **escalation of commitment**, which is an increased commitment to a previous decision despite evidence that it may have been wrong.[12] The *Challenger* space shuttle disaster is often used as an example of escalation of commitment. Decision makers chose to launch the shuttle that day even though the decision was questioned by several individuals who believed that it was a bad one. Why would decision makers escalate commitment to a bad decision? Because they don't want to admit that their initial decision may have been flawed. Rather than search for new alternatives, they simply increase their commitment to the original solution.

Making Decisions: The Role of Intuition

When managers at stapler-maker Swingline saw the company's market share declining, they used a logical scientific approach to address the issue. For three years, they exhaustively researched stapler users before deciding what new products to develop. However, at Accentra, Inc., founder Todd Moses used a more intuitive decision approach to come up with his line of unique PaperPro staplers.[13]

Like Todd Moses, managers often use their intuition to help their decision making. What is **intuitive decision making**? It's making decisions on the basis of experience, feelings, and accumulated judgment. Researchers studying managers' use of intuitive decision making have identified five different aspects of intuition, which are described in Exhibit 7-6.[14] How common is intuitive decision making? One survey found that almost half of the executives surveyed "used intuition more often than formal analysis to run their companies."[15]

EXHIBIT 7-6
What Is Intuition?



Source: Based on L. A. Burke and M. K. Miller, "Taking the Mystery Out of Intuitive Decision Making," *Academy of Management Executive,* October 1999, pp. 91–99.

Intuitive decision making can complement both rational and bounded rational decision making.[16] First of all, a manager who has had experience with a similar type of problem or situation often can act quickly with what appears to be limited information because of that past experience. In addition, a recent study found that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.[17]

Making Decisions: The Role of Evidence-Based Management

Suppose you were exhibiting some strange, puzzling physical symptoms. In order to make the best decisions about proper diagnosis and treatment, wouldn't you want your doctor to base her decisions on the best available evidence? Now suppose that you're a manager faced with putting together an employee recognition program. Wouldn't you want those decisions also to be based on the best available evidence? "Any decision-making process is likely to be enhanced through the use of relevant and reliable evidence, whether it's buying someone a birthday present or wondering which new washing machine to buy."[18] That's the premise behind **evidence-based management (EBMgt)**, which is the "systematic use of the best available evidence to improve management practice."[19]

EBMgt is quite relevant to managerial decision making. The four essential elements of EBMgt are the decision maker's expertise and judgment; external evidence that's been evaluated by the decision maker; opinions, preferences, and values of those who have a stake in the decision; and relevant organizational (internal) factors such as context, circumstances, and organizational members. The strength or influence of each of these elements on a decision will vary with each decision. Sometimes, the decision maker's intuition (judgment) might be given greater emphasis in the decision; other times it might be the opinions of stakeholders; and at other times, it might be ethical considerations (organizational context). The key for managers is to recognize and understand the mindful, conscious choice as to which element(s) are most important and should be emphasized in making a decision.

Types of Decisions and Decision-Making Conditions

7.3 LEARNING OUTCOME
Classify decisions and decision-making conditions.

Restaurant managers in New York City make routine decisions weekly about purchasing food supplies and scheduling employee work shifts. It's something they've done numerous times. But now they're facing a different kind of decision—one they've never encountered—how to adapt to the new law requiring that nutritional information be posted.

Types of Decisions

Such situations aren't all that unusual. Managers in all kinds of organizations face different types of problems and decisions as they do their jobs. Depending on the nature of the problem, a manager can use one of two different types of decisions.

STRUCTURED PROBLEMS AND PROGRAMMED DECISIONS. Some problems are straightforward. The decision maker's goal is clear, the problem is familiar, and information about the problem is easily defined and complete. Examples might include when a

escalation of commitment
An increased commitment to a previous decision despite evidence it may have been wrong

intuitive decision making
Making decisions on the basis of experience, feelings, and accumulated judgment

evidence-based management (EBMgt)
The systematic use of the best available evidence to improve management practice

customer returns a purchase to a store, when a supplier is late with an important delivery, a news team's response to a fast-breaking event, or a college's handling of a student wanting to drop a class. Such situations are called **structured problems** because they're straightforward, familiar, and easily defined. For instance, a server spills a drink on a customer's coat. The customer is upset and the manager needs to do something. Because it's not an unusual occurrence, there's probably some standardized routine for handling it. For example, the manager offers to have the coat cleaned at the restaurant's expense. This is what we call a **programmed decision**, a repetitive decision that can be handled by a routine approach. Because the problem is structured, the manager doesn't have to go to the trouble and expense of going through an involved decision process. The "develop-the-alternatives" stage of the decision-making process either doesn't exist or is given little attention. Why? Because once the structured problem is defined, the solution is usually self-evident or at least reduced to a few alternatives that are familiar and have proved successful in the past. The spilled drink on the customer's coat doesn't require the restaurant manager to identify and weight decision criteria or to develop a long list of possible solutions. Instead, the manager relies on one of three types of programmed decisions: procedure, rule, or policy.

A **procedure** is a series of sequential steps a manager uses to respond to a structured problem. The only difficulty is identifying the problem. Once it's clear, so is the procedure. For instance, a purchasing manager receives a request from a warehouse manager for 15 PDA handhelds for the inventory clerks. The purchasing manager knows how to make this decision by following the established purchasing procedure.

A **rule** is an explicit statement that tells a manager what can or cannot be done. Rules are frequently used because they're simple to follow and ensure consistency. For example, rules about lateness and absenteeism permit supervisors to make disciplinary decisions rapidly and fairly.

The third type of programmed decisions is a **policy**, which is a guideline for making a decision. In contrast to a rule, a policy establishes general parameters for the decision maker rather than specifically stating what should or should not be done. Policies typically contain an ambiguous term that leaves interpretation up to the decision maker. Here are some sample policy statements:

- The customer always comes first and should always be *satisfied.*
- We promote from within, *whenever possible*.
- Employee wages shall be *competitive* within community standards.

Notice that the terms *satisfied, whenever possible,* and *competitive* require interpretation. For instance, the policy of paying competitive wages doesn't tell a company's human resources manager the exact amount he or she should pay, but it does guide them in making the decision.

UNSTRUCTURED PROBLEMS AND NONPROGRAMMED DECISIONS. Not all the problems managers face can be solved using programmed decisions. Many organizational situations involve **unstructured problems**, which are problems that are new or unusual and for which information is ambiguous or incomplete. Whether to build a new manufacturing facility in China is an example of an unstructured problem. So, too, is the problem facing restaurant managers in New York City who must decide how to modify their businesses to comply with the new law. When problems are unstructured, managers must rely on nonprogrammed decision making in order to develop unique solutions. **Nonprogrammed decisions** are unique and nonrecurring and involve custom-made solutions.

Exhibit 7-7 describes the differences between programmed and nonprogrammed decisions. Lower-level managers mostly rely on programmed decisions (procedures, rules, and policies) because they confront familiar and repetitive problems. As managers move up the organizational hierarchy, the problems they confront become more unstructured. Why? Because lower-level managers handle the routine decisions and let upper-level managers deal with the unusual or difficult decisions. Also, upper-level managers delegate routine decisions to their subordinates so they can deal with more difficult issues.[20] Thus, few managerial decisions in the real world are either fully programmed or nonprogrammed. Most fall somewhere in between.

Characteristic	Programmed Decisions	Nonprogrammed Decisions
Type of problem	Structured	Unstructured
Managerial level	Lower levels	Upper levels
Frequency	Repetitive, routine	New, unusual
Information	Readily available	Ambiguous or incomplete
Goals	Clear, specific	Vague
Time frame for solution	Short	Relatively long
Solution relies on . . .	Procedures, rules, policies	Judgment and creativity

EXHIBIT 7-7
Programmed Versus Nonprogrammed Decisions

Decision-Making Conditions

When making decisions, managers may face three different conditions: certainty, risk, and uncertainty. Let's look at the characteristics of each.

CERTAINTY. The ideal situation for making decisions is one of **certainty**, which is a situation where a manager can make accurate decisions because the outcome of every alternative is known. For example, when North Dakota's state treasurer decides where to deposit excess state funds, he knows exactly the interest rate being offered by each bank and the amount that will be earned on the funds. He is certain about the outcomes of each alternative. As you might expect, most managerial decisions aren't like this.

RISK. A far more common situation is one of **risk**, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information that lets them assign probabilities to different alternatives. Let's do an example.

FUTURE VISION

The Working World in 2020

Artificial intelligence software will be available to approach problems the way the human brain does—by trying to recognize patterns that underlie a complex set of data.[21] Like people, this software will "learn" to pick out subtle patterns. In so doing, it will be able to perform a number of decision-making tasks.

Just as today's computers allow you to access information quickly from sources such as spreadsheets or search engines, most of the routine decisions that employees now do on the job are likely to be delegated to a software program. For instance, much of the diagnostic work now done by doctors will be done by software. Patients will describe their symptoms to a computer in a medical kiosk, possibly at their neighborhood drugstore, and from answers that the patient provides, the computer will render a decision. Similarly many hiring decisions will be made by software that is programmed to simulate the successful decision processes used by recruiters and managers. Welcome to the future of decision making!

structured problems
Straightforward, familiar, and easily defined problems

programmed decision
A repetitive decision that can be handled by a routine approach

procedure
A series of sequential steps used to respond to a well-structured problem

rule
An explicit statement that tells managers what can or cannot be done

policy
A guideline for making decisions

unstructured problems
Problems that are new or unusual and for which information is ambiguous or incomplete

nonprogrammed decisions
Unique and nonrecurring decisions that require a custom-made solution

certainty
A situation in which a manager can make accurate decisions because all outcomes are known

risk
A situation in which the decision maker is able to estimate the likelihood of certain outcomes

EXHIBIT 7-8
Expected Value

Event	Expected Revenues	x	Probability	=	Expected Value of Each Alternative
Heavy snowfall	$850,000		0.3		$255,000
Normal snowfall	725,000		0.5		362,500
Light snowfall	350,000		0.2		70,000
					$687,500

Suppose that you manage a Colorado ski resort and you're thinking about adding another lift. Obviously, your decision will be influenced by the additional revenue that the new lift would generate, which depends on snowfall. You have fairly reliable weather data from the last 10 years on snowfall levels in your area—three years of heavy snowfall, five years of normal snowfall, and two years of light snow. And you have good information on the amount of revenues generated during each level of snow. You can use this information to help you make your decision by calculating expected value—the expected return from each possible outcome—by multiplying expected revenues by snowfall probabilities. The result is the average revenue you can expect over time if the given probabilities hold. As Exhibit 7-8 shows, the expected revenue from adding a new ski lift is $687,500. Of course, whether that's enough to justify a decision to build depends on the costs involved in generating that revenue.

UNCERTAINTY. What happens if you face a decision where you're not certain about the outcomes and can't even make reasonable probability estimates? We call this condition **uncertainty**. Managers do face decision-making situations of uncertainty. Under these conditions, the choice of alternative is influenced by the limited amount of available information and by the psychological orientation of the decision maker. An optimistic manager will follow a *maximax* choice (maximizing the maximum possible payoff); a pessimist will follow a *maximin* choice (maximizing the minimum possible payoff); and a manager who desires to minimize his maximum "regret" will opt for a *minimax* choice. Let's look at these different choice approaches using an example.

A marketing manager at Visa has determined four possible strategies (S_1, S_2, S_3, and S_4) for promoting the Visa card throughout the West Coast region of the United States. The marketing manager also knows that major competitor MasterCard has three competitive

Influenced by his optimism and intuition, Richard Branson (left), founder of The Virgin Group, unveiled a new online gaming venture based on his hunch that gamers want something new, interactive, and fun. A convergence of video games, social networking, and competitive gaming, Virgin Gaming enables players from around the world to meet and challenge each other in matches for cash and prizes. Although launched during a time of global economic uncertainty, Branson sees an enormous potential of an online community of 40 million daily users. Unlike competitors that target professionals, Virgin Gaming is designed for gamers of all skill levels. Shown here with Branson are (from left) Virgin Gaming president and cofounder William Levy, vice president of gaming operations, and cofounder Zack Zeldin, and CEO Rob Segal.

Visa Marketing Strategy (in millions of dollars)	MasterCard's Competitive Action		
	CA_1	CA_2	CA_3
S_1	13	14	11
S_2	9	15	18
S_3	24	21	15
S_4	18	14	28

EXHIBIT 7-9
Payoff Matrix

actions (CA_1, CA_2, CA_3) it's using to promote its card in the same region. For this example, we'll assume that the Visa manager had no previous knowledge that would allow her to determine probabilities of success of any of the four strategies. She formulates the matrix shown in Exhibit 7-9 to show the various Visa strategies and the resulting profit depending on the competitive action used by MasterCard.

In this example, if our Visa manager is an optimist, she'll choose strategy 4 (S_4) because that could produce the largest possible gain: $28 million. Note that this choice maximizes the maximum possible gain (maximax choice).

If our manager is a pessimist, she'll assume that only the worst can occur. The worst outcome for each strategy is as follows: S_1 = $11 million; S_2 = $9 million; S_3 = $15 million; S_4 = $14 million. These are the most pessimistic outcomes from each strategy. Following the *maximin* choice, she would maximize the minimum payoff; in other words, she'd select S_3 ($15 million is the largest of the minimum payoffs).

In the third approach, managers recognize that once a decision is made, it will not necessarily result in the most profitable payoff. There may be a "regret" of profits given up—*regret* referring to the amount of money that could have been made had a different strategy been used. Managers calculate regret by subtracting all possible payoffs in each category from the maximum possible payoff for each given event, in this case for each competitive action. For our Visa manager, the highest payoff, given that MasterCard engages in CA_1, CA_2, or CA_3, is $24 million, $21 million, or $28 million, respectively (the highest number in each column). Subtracting the payoffs in Exhibit 7-9 from those figures produces the results shown in Exhibit 7-10.

The maximum regrets are S_1 = $17 million, S_2 = $15 million, S_3 = $13 million, and S_4 = $7 million. The *minimax* choice minimizes the maximum regret, so our Visa manager would choose S_4. By making this choice, she'll never have a regret of profits given up of more than $7 million. This result contrasts, for example, with a regret of $15 million had she chosen S_2 and MasterCard had taken CA_1.

Although managers try to quantify a decision when possible by using payoff and regret matrices, uncertainty often forces them to rely more on intuition, creativity, hunches, and "gut feel."

As a business owner in Russia, Mikhail D. Prokhorov has had to make a lot of risky decisions.[22] He's president of Onexim Group, a company with businesses in metal, gold, and real estate. And he's worth an estimated $17.9 billion. He says, "Doing business in Russia in the early 1990s was cowboy territory with no sheriff." That's an interesting and probably fairly accurate description of risk. And it's a good thing he's comfortable with risk because he's now made another risky decision, this time in the United States. He's become an NBA league owner. As the new majority owner of the New Jersey Nets, he says "I am real excited to take the worst team of the league and turn it into the best." The basketball-loving Russian billionaire hopes his latest decision is a slam dunk!

uncertainty
A situation in which a decision maker has neither certainty nor reasonable probability estimates available

EXHIBIT 7-10
Regret Matrix

(in millions of dollars) Visa Marketing Strategy	MasterCard's Competitive Action		
	CA_1	CA_2	CA_3
S_1	11	7	17
S_2	15	6	10
S_3	0	0	13
S_4	6	7	0

LEARNING OUTCOME 7.4
Describe different decision-making styles and discuss how biases affect decision making.

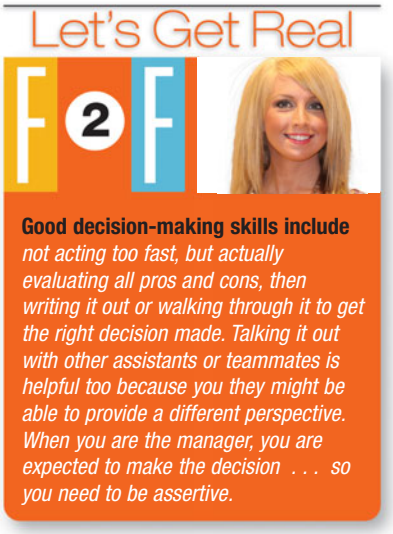
Decision-Making Styles

William D. Perez's tenure as Nike's CEO lasted a short and turbulent 13 months. Analysts attributed his abrupt dismissal to a difference in decision-making approaches between him and Nike co-founder Phil Knight. Perez tended to rely more on data and facts when making decisions, whereas Knight highly valued, and had always used, his judgment and feelings to make decisions.[23] As this example clearly shows, managers have different styles when it comes to making decisions.

Linear–Nonlinear Thinking Style Profile

Suppose that you're a new manager. How will you make decisions? Recent research done with four distinct groups of people says that the way a person approaches decision making is likely affected by his or her thinking style.[24] Your thinking style reflects two things: (1) the source of information you tend to use (external data and facts OR internal sources such as feelings and intuition), and (2) whether you process that information in a linear way (rational, logical, analytical) OR a nonlinear way (intuitive, creative, insightful). These four dimensions are collapsed into two styles. The first, **linear thinking style**, is characterized by a person's preference for using external data and facts and processing this information through rational, logical thinking to guide decisions and actions. The second, **nonlinear thinking style**, is characterized by a preference for internal sources of information (feelings and intuition) and processing this information with internal insights, feelings, and hunches to guide decisions and actions. Look back at the earlier Nike example and you'll see both styles described.

Managers need to recognize that their employees may use different decision-making styles. Some employees may take their time weighing alternatives and relying on how they feel about it while others rely on external data before logically making a decision. These differences don't make one person's approach better than the other. It just means that their decision making styles are different.



Decision-Making Biases and Errors

When managers make decisions, they not only use their own particular style, they may use "rules of thumb," or **heuristics**, to simplify their decision making. Rules of thumb can be useful because they help make sense of complex, uncertain, and ambiguous information.[25] Even though managers may use rules of thumb, that doesn't mean those rules are reliable. Why? Because they may lead to errors and biases in processing and evaluating information. Exhibit 7-11 identifies twelve common decision errors and biases that managers make. Let's look at each.[26]

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they're exhibiting the *overconfidence bias.* The *immediate gratification bias* describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those with payoffs in the future. The *anchoring effect* describes how decision makers fixate on initial information as a

EXHIBIT 7-11
Common Decision-Making Biases

starting point and then, once set, fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later. When decision makers selectively organize and interpret events based on their biased perceptions, they're using the *selective perception bias*. This influences the information they pay attention to, the problems they identify, and the alternatives they develop. Decision makers who seek out information that reaffirms their past choices and discount information that contradicts past judgments exhibit the *confirmation bias.* These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges these views. The *framing bias* is when decision makers select and highlight certain aspects of a situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points. The a*vailability bias* happens when decisions makers tend to remember events that are the most recent and vivid in their memory. The result? It distorts their ability to recall events in an objective manner and results in distorted judgments and probability estimates. When decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events, that's the *representation bias.* Managers exhibiting this bias draw analogies and see identical situations where they don't exist. The *randomness bias* describes the actions of decision makers who try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance even though random events happen to everyone and there's nothing that can be done to predict them. The *sunk costs error* occurs when decision makers forget that current choices can't correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they can't forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors are exhibiting the *self-serving bias.* Finally, the *hindsight bias* is the tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.

linear thinking style
Decision style characterized by a person's preference for using external data and facts and processing this information through rational, logical thinking

nonlinear thinking style
Decision style characterized by a person's preference for internal sources of information and processing this information with internal insights, feelings, and hunches

heuristics
Rules of thumb that managers use to simplify decision making

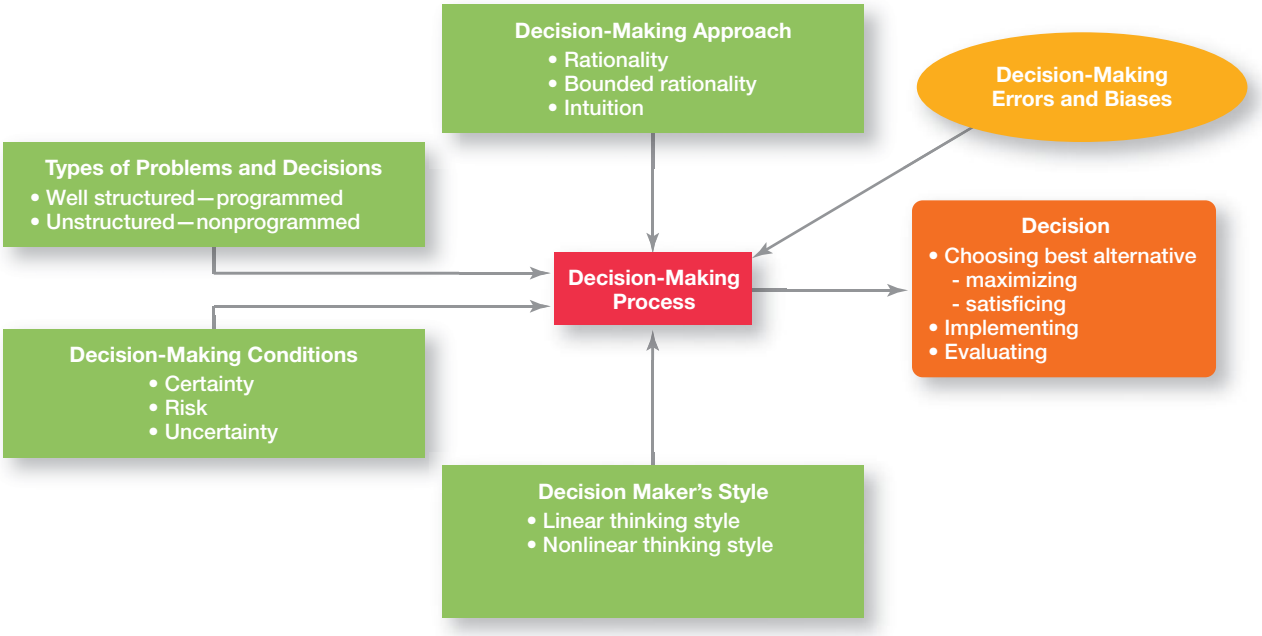


EXHIBIT 7-12
Overview of Managerial Decision Making

Managers avoid the negative effects of these decision errors and biases by being aware of them and then not using them! Beyond that, managers also should pay attention to "how" they make decisions and try to identify the heuristics they typically use and critically evaluate how appropriate those heuristics are. Finally, managers might want to ask trusted individuals around them to help them identify weaknesses in their decision-making style and try to improve on those weaknesses.

Overview of Managerial Decision Making

Exhibit 7-12 provides an overview of managerial decision making. Because it's in their best interests, managers *want* to make good decisions—that is, choose the "best" alternative, implement it, and determine whether it takes care of the problem, which is the reason the decision was needed in the first place. Their decision-making process is affected by four factors: the decision-making approach, the type of problem, decision-making conditions, and their decision-making style. In addition, certain decision-making errors and biases may impact the process. Each factor plays a role in determining how the manager makes a decision. So whether that decision involves addressing an employee's habitual tardiness, resolving a product quality problem, or determining whether to enter a new market, remember that it has been shaped by a number of factors.

LEARNING OUTCOME
Identify effective decision-making techniques.

7.5

Effective Decision Making in Today's World

Per Carlsson, a product development manager at IKEA, "spends his days creating Volvo-style kitchens at Yugo prices." His job is to take the "problems" identified by the company's product-strategy council (a group of globe-trotting senior managers that monitors consumer trends and establishes product priorities) and turn them into furniture that customers around the world want to buy. One "problem" recently identified by the council: the kitchen has replaced the living room as the social and entertaining center in the home. Customers are looking for kitchens that convey comfort and cleanliness while still allowing them to

pursue their gourmet aspirations. Carlsson must take this information and make things happen. There are a lot of decisions to make—programmed and nonprogrammed—and the fact that IKEA is a global company makes it even more challenging. Comfort in Asia means small, cozy appliances and spaces, while North American customers want oversized glassware and giant refrigerators. His ability to make good decisions quickly has significant implications for IKEA's success.[27]

Today's business world revolves around making decisions, often risky ones, usually with incomplete or inadequate information, and under intense time pressure. Most managers make one decision after another; and as if that weren't challenging enough, more is at stake than ever before. Bad decisions can cost millions. What do managers need to do to make effective decisions in today's fast-moving world? Here are some guidelines.

- *Understand cultural differences.* Managers everywhere want to make good decisions. However, is there only one "best" way worldwide to make decisions? Or does the "best way depend on the values, beliefs, attitudes, and behavioral patterns of the people involved?"[28]
- *Know when it's time to call it quits.* When it's evident that a decision isn't working, don't be afraid to pull the plug. For instance, the CEO of L.L.Bean pulled the plug on building a new customer call center in Waterville, Maine—"literally stopping the bulldozers in their tracks"—after T-Mobile said it was building its own call center right next door. He was afraid that the city would not have enough qualified workers for both companies and so decided to build 55 miles away in Bangor.[30] He knew when it was time to call it quits. However, as we said earlier, many decision makers block or distort negative information because they don't want to believe that their decision was bad. They become so attached to a decision that they refuse to recognize when it's time to move on. In today's dynamic environment, this type of thinking simply won't work.
- *Use an effective decision-making process.* Experts say an effective decision-making process has these six characteristics: (1) It focuses on what's important; (2) It's logical and consistent; (3) It acknowledges both subjective and objective thinking and blends analytical with intuitive thinking; (4) It requires only as much information and analysis as is necessary to resolve a particular dilemma; (5) It encourages and guides the gathering of relevant information and informed opinion; and (6) It's straightforward, reliable, easy to use, and flexible."[31]
- *Build an organization that can spot the unexpected and quickly adapt to the changed environment.* This suggestion comes from Karl Weick, an organizational psychologist, who has made a career of studying organizations and how people work.[32] He calls such organizations *highly reliable organizations* (HROs) and says they share five habits. (1) They're *not tricked by their success.* HROs are preoccupied with their failures. They're alert to the smallest deviations and react quickly to anything that doesn't fit with their expectations. He talks about Navy aviators who describe "leemers—a gut feeling that something isn't right." Typically, these leemers turn out to be accurate. Something, in fact, is wrong. Organizations need to create climates where people feel safe trusting their leemers. (2) They *defer to the experts on the front line.* Frontline workers—those who interact day in and day out with customers, products, suppliers, and so forth—have firsthand knowledge of what can and cannot be done, what will and will not work. Get their input. Let them make decisions. (3) They *let unexpected circumstances provide the solution.* One of Weick's better-known works is his study of the Mann Gulch fire in Montana that killed 13 smoke jumpers in 1949. The event was a massive, tragic organizational failure. However, the reaction of the foreman illustrates how effective decision makers respond to unexpected circumstances. When the fire was nearly on top of his men, he invented the escape fire—a small fire that consumed all the brush around the team, leaving an area where the larger fire couldn't burn. His action was contrary to everything firefighters are taught (that is, you don't start fires—you extinguish them), but at the time it was the best decision. (4) They *embrace complexity.* Because business is

by the numbers[29]

90 percent of people believe they are just a little more competent, smarter, or kinder than average.

91 percent of U.S. companies use teams and groups to solve specific problems.

40 About 40 percent more ideas are generated with electronic brainstorming than with individuals brainstorming alone.

59 percent of employees say that a key obstacle to their job is that more attention is paid to placing blame than to solving problems.

77 percent of managers said that the number of decisions they made during a typical workday had increased.

43 percent of managers said that the amount of time given to each decision had decreased.

RPS In Asia, RPS (rock, paper, scissors) is more recognized as a decision tiebreaker than it is in the United States.

20 percent of American adults said that they think most creatively in their cars.

complex, these organizations recognize that it "takes complexity to sense complexity." Rather than simplifying data, which we instinctively try to do when faced with complexity, these organizations aim for deeper understanding of the situation. They ask "why" and keep asking why as they probe more deeply into the causes of the problem and possible solutions. (5) Finally, they *anticipate, but also recognize their limits.* These organizations do try to anticipate as much as possible, but they recognize that they can't anticipate everything. As Weick says, they don't "think, then act. They think by acting. By actually doing things, you'll find out what works and what doesn't."

Making decisions in today's fast-moving world isn't easy. Successful managers need good decision-making skills to plan, organize, lead, and control.

What Would You Do?

Tiffany Eulinger
Area Manager
Buckle
Kansas City, MO

Let's Get Real:

My Response *to A Manager's Dilemma, page 178*

I believe that guest satisfaction and attendance are what will show whether this was a "slam dunk" decision. You won't know in the first year of the attraction whether it was a success because of all of the hype leading up to the theme park. It will be the continued success and attendance at the park that will prove it to be a great idea. I'm sure that when the final Harry Potter movie comes out in November 2010, the park will see a surge in attendance and excitement.

Measuring attendance each year, as well as the cost to run and maintain the park would be important. I would measure success based on "sales" like we do in retail. Usually a new store will start out great because of advertising for the new store opening. It is the consistent growth each year on top of the previous year's sales that truly proves whether the store was a "success."

CHAPTER SUMMARY
by Learning Outcomes

Describe the eight steps in the decision-making process.

LEARNING OUTCOME 7.1

A decision is a choice. The decision-making process consists of eight steps: (1) identify problem; (2) identify decision criteria; (3) weight the criteria; (4) develop alternatives; (5) analyze alternatives; (6) select alternative; (7) implement alternative; and (8) evaluate decision effectiveness.

Explain the four ways managers make decisions.

LEARNING OUTCOME 7.2

The assumptions of rationality are as follows: the problem is clear and unambiguous; a single, well-defined goal is to be achieved; all alternatives and consequences are known; and the final choice will maximize the payoff. Bounded rationality says that managers make rational decisions but are bounded (limited) by their ability to process information. Satisficing happens when decision makers accept solutions that are good enough. With escalation of commitment, managers increase commitment to a decision even when they have evidence it may have been a wrong decision. Intuitive decision making means making decisions on the basis of experience, feelings, and accumulated judgment. Using evidence-based management, a manager makes decisions based on the best available evidence.

Classify decisions and decision-making conditions.

LEARNING OUTCOME 7.3

Programmed decisions are repetitive decisions that can be handled by a routine approach and are used when the problem being resolved is straightforward, familiar, and easily defined (structured). Nonprogrammed decisions are unique decisions that require a custom-made solution and are used when the problems are new or unusual (unstructured) and for which information is ambiguous or incomplete. Certainty is a situation in which a manager can make accurate decisions because all outcomes are known. Risk is a situation in which a manager can estimate the likelihood of certain outcomes. Uncertainty is a situation in which a manager is not certain about the outcomes and can't even make reasonable probability estimates. When decision makers face uncertainty, their psychological orientation will determine whether they follow a maximax choice (maximizing the maximum possible payoff); a maximin choice (maximizing the minimum possible payoff); or a minimax choice (minimizing the maximum regret—amount of money that could have been made if a different decision had been made).

Describe different decision-making styles and discuss how biases affect decision making.

LEARNING OUTCOME 7.4

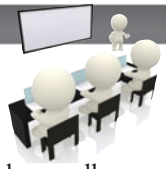
A person's thinking style reflects two things: the source of information you tend to use (external or internal) and how you process that information (linear or nonlinear). These four dimensions were collapsed into two styles. The linear thinking style is characterized by a person's preference for using external data and processing this information through rational, logical thinking. The nonlinear thinking style is characterized by a preference for internal sources of information and processing this information with internal insights, feelings, and hunches. The 12 common decision-making errors and biases include overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias, and hindsight. The managerial decision making model helps explain how the decision-making process is used to choose the best alternative(s) either through maximizing or satisficing and then implement and evaluate the alternative. It also helps explain what factors affect the decision-making process including the decision-making approach (rationality, bounded rationality, intuition), the types of problems and decisions (well structured and programmed or unstructured and nonprogrammed), the decision-making conditions (certainty, risk, uncertainty), and the decision maker's style (linear or nonlinear).

LEARNING OUTCOME 7.5

Identify effective decision-making techniques.

Managers can make effective decisions by understanding cultural differences in decision making, knowing when it's time to call it quits, using an effective decision-making process, and building an organization that can spot the unexpected and quickly adapt to the changed environment. An effective decision-making process (1) focuses on what's important; (2) is logical and consistent; (3) acknowledges both subjective and objective thinking and blends both analytical and intuitive approaches; (4) requires only "enough" information as is necessary to resolve a problem; (5) encourages and guides gathering relevant information and informed opinions; and (6) is straightforward, reliable, easy to use, and flexible. The five habits of highly reliable organizations are (1) not being tricked by their successes; (2) deferring to experts on the front line; (3) letting unexpected circumstances provide the solution; (4) embracing complexity; and (5) anticipating, but also recognizing, limits.

To check your understanding of learning outcomes 7.1 – 7.5 go to **mymanagementlab.com** and try the chapter questions.



REVIEW AND DISCUSSION QUESTIONS

1. Why is decision making often described as the essence of a manager's job?
2. Describe the eight steps in the decision-making process.
3. Compare and contrast the four ways managers make decisions.
4. How might an organization's culture influence the way managers make decisions?
5. Explain the two types of problems and decisions. Contrast the three decision-making conditions.
6. All of us bring biases to the decisions we make. What would be the drawbacks of having biases? Could there be any advantages to having biases? Explain. What are the implications for managerial decision making?
7. Would you call yourself a linear or nonlinear thinker? What are the decision-making implications of these labels? What are the implications for choosing where you want to work?
8. "As managers use computers and software tools more often, they'll be able to make more rational decisions." Do you agree or disagree with this statement? Why?
9. How can managers blend the guidelines for making effective decisions in today's world with the rationality and bounded rationality models of decision making, or can they? Explain.
10. Is there a difference between wrong decisions and bad decisions? Why do good managers sometimes make wrong decisions? Bad decisions? How can managers improve their decision-making skills?

PREPARING FOR: My Career

ETHICS DILEMMA

The 75 employees of Atomic Games worked nearly four years creating a realistic video game called Six Days in Fallujah, "weaving in real war footage and interviews with Marines who had fought there."[33] Now, relatives of dead Marines are angry. Said one mom whose son was killed by a sniper in Fallujah, "By making it something people play for fun, they are trivializing the battle."

Company executive Peter Tamte relied on the advice of a number of Fallujah veterans and calls the video game a "documentary-style reconstruction that will be so true to the original battle, gamers will almost feel what it was like to fight in Fallujah in November 2004." What do you think? What ethical issues do you see here? Should the company proceed with the game's release? Why or why not?

SKILLS EXERCISE

Developing Your Creativity Skill

About the Skill

Creativity is a frame of mind. You need to open your mind to new ideas. Every individual has the ability to be creative, but many people simply don't try to develop that ability. In contemporary organizations, such people may have difficulty achieving success. Dynamic environments and managerial chaos require that managers look for new and innovative ways to attain their goals as well as those of the organization.[34]

Steps in Practicing the Skill

1. **Think of yourself as creative.** Although it's a simple suggestion, research shows that if you think you can't be creative, you won't be. Believing in yourself is the first step in becoming more creative.
2. **Pay attention to your intuition.** Every individual's subconscious mind works well. Sometimes answers come to you when least expected. For example, when you are about to go to sleep, your relaxed mind sometimes whispers a solution to a problem you're facing. Listen to that voice. In fact, most creative people keep a notepad near their bed and write down those great ideas when they occur. That way, they don't forget them.
3. **Move away from your comfort zone.** Every individual has a comfort zone in which certainty exists. But creativity and the known often do not mix. To be creative, you need to move away from the status quo and focus your mind on something new.
4. **Engage in activities that put you outside your comfort zone.** You not only must think differently; you need to do things differently and, thus, challenge yourself. Learning to play a musical instrument or learning a foreign language, for example, opens your mind to a new challenge.
5. **Seek a change of scenery.** People are often creatures of habit. Creative people force themselves out of their habits by changing their scenery, which may mean going into a quiet and serene area where you can be alone with your thoughts.
6. **Find several right answers.** In the discussion of bounded rationality, we said that people seek solutions that are good enough. Being creative means continuing to look for other solutions even when you think you have solved the problem. A better, more creative solution just might be found.
7. **Play your own devil's advocate.** Challenging yourself to defend your solutions helps you to develop confidence in your creative efforts. Second-guessing yourself may also help you find more creative solutions.
8. **Believe in finding a workable solution.** Like believing in yourself, you also need to believe in your ideas. If you don't think you can find a solution, you probably won't.
9. **Brainstorm with others.** Being creative is not a solitary activity. Bouncing ideas off others creates a synergistic effect.
10. **Turn creative ideas into action.** Coming up with ideas is only half the process. Once the ideas are generated, they must be implemented. Keeping great ideas in your mind or on paper that no one will read does little to expand your creative abilities.

Practicing the Skill

How many words can you make using the letters in the word *brainstorm*? There are at least 95.

WORKING TOGETHER

Team Exercise

Being effective in decision making is something that managers obviously want. What's involved with being a good decision maker? Form groups of three to four students. Discuss your experiences making decisions—for example, buying a car or some other purchase, choosing classes and professors, making summer or spring break plans, and so forth. Each of you should share times when you felt you made good decisions. Analyze what happened during that decision-making process that contributed to it being a good decision. Then, consider some decisions that you felt were bad. What happened to make them bad? What common characteristics, if any, did you identify among the good decisions? The bad decisions? Come up with a bulleted list of practical suggestions for making good decisions. As a group, be prepared to share your list with the class.

MY TURN TO BE A MANAGER

- For one week, pay close attention to the decisions you make and how you make them. Write a description of five of those decisions using the steps in the decision-making process as your guide. Also, describe whether you relied on external or internal sources of information to help you make the decision and whether you think you were more linear or nonlinear in how you processed that information.
- When you feel you haven't made a good decision, assess how you could have made a better decision.
- Find two examples of a procedure, a rule, and a policy. Bring a description of these examples to class and be prepared to share them.
- Write a procedure, a rule, and a policy for your instructor to use in your class. Be sure that each one is clear and understandable. And be sure to explain how it fits the characteristics of being a procedure, a rule, or a policy.
- Find three examples of managerial decisions described in any of the popular business periodicals (*Wall Street Journal, BusinessWeek, Fortune,* etc.). Write a paper describing each decision and any other information such as what led to the decision, what happened as a result of the decision, etc. What did you learn about decision making from these examples?
- Interview two managers and ask them for suggestions on what it takes to be a good decision maker. Write down their suggestions and be prepared to present them in class.
- Steve's and Mary's suggested readings: Noel M. Tichy and Warren G. Bennis, *Judgment: How Winning Leaders Make Great Calls* (Portfolio, 2007); Gerd Gigerenzer, *Gut Feelings: The Intelligence of the Unconscious* (Viking, 2007); Stephen P. Robbins, *Decide & Conquer: Make Winning Decisions and Take Control of Your Life* (Financial Times Press, 2004); and John S. Hammond, Ralph L. Keeney, and Howard Raiffa, *Smart Choices: A Practical Guide to Making Better Decisions* (Harvard Business School Press, 1999).
- Do a Web search on the phrase "101 dumbest moments in business." Get the most current version of this end-of-year list. Pick three of the examples and describe what happened. What's your reaction to the example? How could the managers have made better decisions?
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Well Do I Handle Ambiguity? How Well Do I Respond to Turbulent Change? and What's My Decision-Making Style? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

The Curtain Falls

"The Tonight Show" host Jay Leno (right) interviews his replacement Conan O'Brien during Leno's final taping as host of the show before he began his own primetime talk show, an NBC management decision to cut costs and dubbed as one of "the entertainment industry's biggest programming debacles."

It's been called one of "the entertainment industry's biggest programming debacles."[35] Jay Leno moved from host of the "Tonight Show" to his own talk show, "The Jay Leno Show," which aired at the 10 p.m. weeknight time slot. Conan O'Brien was brought on as Leno's replacement on the "Tonight Show," which has always aired after the local news.

The Jay Leno–Conan O'Brien fiasco started with a decision by NBC executives to save some money by giving Leno one of the oldest formats in TV programming: a comedy-variety show with a comedian, a stage, guests, and in-show ads. But that decision was also a radical experiment based on a single show airing every single weeknight during prime time on a major broadcast network. This format was cheaper to produce for an entire week than 60 minutes of the pricey scripted dramas that are usually broadcast during that time period. Jeff Gaspin, chairman of television entertainment at NBC Universal, said, "I don't think it's wrong to take chances. . . . Sometimes they work. Sometimes they don't." And this decision wasn't working.

It all started to unravel when ratings for Leno's talk show were low and continued to sink. One media analyst said, "Nobody's happy—the talent isn't happy, the advertisers aren't happy, and the audience isn't happy." Local network affiliates that rely on that 10 p.m. slot to lead people into the late local news rebelled. Those affiliates threatened to preempt Leno's show with other programming. But that wasn't NBC's only problem. O'Brien's "Tonight Show" also was doing poorly in its time slot, losing resoundingly to "Late Show with David Letterman" on CBS for the first time in 15 years.

NBC executives continued to struggle with decision making. It took nearly two weeks of a very public spectacle for them to craft a solution in which Leno returned to his gig at the "Tonight Show" and O'Brien left with a $40 million agreement to walk away from "his dream job." And so the curtain closes on a story NBC executives wish had never been written.

Discussion Questions

1. Would you characterize television programming decisions as structured or unstructured? Explain. What type of decision-making condition would you consider this to be? Explain.
2. What criteria did NBC use in evaluating its initial decision to move Leno and O'Brien? Was that criteria appropriate? Why or why not?
3. Evaluate Jeff Gaspin's statement, "I don't think it's wrong to take chances. . . . Sometimes they work. Sometimes they don't." What does it say about his decision-making style?
4. Describe how NBC executives could have used each of the following to make better decisions: (a) rationality, (b) bounded rationality, (c) intuition, and (d) evidence-based management.

CASE APPLICATION 2

Underwater Chaos

It would be a claustrophobic's worst nightmare—trapped subsea in the 31-mile Eurotunnel beneath the English Channel on the Eurostar train that travels between Britain and the European mainland.[36] A series of breakdowns on five London-bound trains from Brussels, which began December 18, 2009, left more than 2,000 passengers stranded for up to 16 hours. Many of those passengers trapped in the dark and overheated tunnel endured serious distress. "Parents had to remove their children's clothes, leaving them in underwear and diapers. Some passengers suffered stress and panic attacks. Others started feeling ill due to the heat." Was this just an unfortunate incident for the unlucky passengers who happened to be on those trains or did poor managerial decision making about the operation of both the train and the channel tunnel also play a role?

An independent review of the incident blamed Eurostar and the operator of the tunnel for being unprepared for severe winter weather. The report said that Eurostar had failed to adequately maintain and winterize its high-speed trains to protect sensitive components from malfunctioning due to excessive snow and moisture buildup. At the time of the Eurostar train breakdowns, severe winter weather had been wreaking havoc on Europe. Airlines, car and truck drivers, and other rail operators across Europe were also suffering from a winter that was on course to be the coldest in more than 30 years. Freezing weather and snow had caused travel problems for days in Northern Europe. In addition, the report criticized Eurotunnel (the operator of the channel tunnel) for having unsatisfactory communications systems in place inside the tunnel, which could have given its employees direct contact with train drivers and other Eurostar staff. "If a train breaks down and passengers have to be rescued and evacuated, this must be done with greater speed and consideration. In an emergency, passengers need to have prompt information and regular updates."

Although the severe weather conditions undoubtedly played a role in this fiasco, there's no doubt that managers could have done a better job of making decisions in preparing for such scenarios.

Discussion Questions

1. What's your reaction to this story? What does it illustrate about decision making?
2. How could the decision-making process have helped in both the response to the crisis situation and in preventing it from happening?
3. Could procedures, policies, and rules play any role in future crisis situations like this one? If so, how? If not, why not?
4. What could other organizations learn from this incident?

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8 CHAPTER

Let's Get Real:

You'll be hearing more from this real manager throughout the chapter.

Meet the Manager

Chuck Pick

President
Chuck's Parking Service, Inc.
Sherman Oaks, CA

MY JOB:

I'm the president and owner of Chuck's Parking Service, Inc. We are a full-service valet parking and transportation company that provides both valet parking and shuttle services for commercial locations and important events in Los Angeles and the surrounding area. I am personally involved in every facet of the company and its operations.

BEST PART OF MY JOB:

My greatest satisfaction comes from meeting a new client with a particularly challenging parking situation, designing and implementing a sound operational plan, and seeing my talented management team and employees execute every detail exactly as planned. It's a thrill to work with some of the most important people and events in the world, from standing U.S. presidents to the Academy Awards.

Foundations *of* Planning

LEARNING OUTCOMES

8.1 **Define** the nature and purposes of planning. *page 204*

8.2 **Classify** the types of goals organizations might have and the plans they use. *page 205*

8.3 **Compare** and contrast approaches to goal setting and planning. *page 208*

8.4 **Discuss** contemporary issues in planning. *page 212*

WORST PART OF MY JOB:

As the owner of a service industry business, there is no downtime. We are working when most people are not (weekends, evenings, and holidays). Although I surround myself with competent managers and supervisors, it's impossible to ever completely clear my mind of the business. Late-night calls regarding damages or other unforeseen problems are especially unpleasant.

BEST MANAGEMENT ADVICE EVER RECEIVED:

You can't cheat on service! Either provide a great service or don't provide a service at all. Avoid the temptation of cutting service to fit a client's budget and don't lower your standards to the level of your competition. I constantly tell myself that you can't do every event.

A Manager's Dilemma

A massive earthquake struck Haiti on January 12, 2010, causing catastrophic damage.[1] Mobilizing all the resources and people for the relief effort required considerable planning. The World Food Program (WFP), the world's largest humanitarian relief organization, immediately assembled land, sea, and air resources to move hundreds of tons of emergency supplies.

Lou Policastro, executive vice president of Geodis Wilson, which manages WFP's logistics, was contacted initially over the Martin Luther King holiday weekend when "nothing was open." It took four days to mobilize, load, and deliver trailers of food to Miami where it was loaded onto a ship. WFP already had moved more than 400 tons of emergency food aboard 747s and smaller aircraft, encountering delays at Port-au-Prince's airport because of all the relief flights. All told, the WFP delivered nearly 3 million meals in the first days after the quake—enough to feed the population of Port-au-Prince for one day. Policastro said, "This is the most complex operation that WFP has ever launched. Haiti presented a unique problem: an isolated island and heavily populated in the central location that was hit hardest by the quake." What types of plans might be needed to ensure that efficient and effective aid efforts continue?

What Would You Do?

You may think that "planning" isn't something that's relevant to you right now. But when you figure out your class schedule for the next term or when you decide what you need to do to finish a class project on time, you're planning. And planning is something that all managers, such as Lou Policastro and others who responded to the Haiti relief effort, need to do. Although what they plan and how they plan may differ, it's still important that they do plan. In this chapter we present the basics: what planning is, why managers plan, and how they plan.

LEARNING OUTCOME 8.1
Define the nature and purposes of planning.

The What and Why of Planning

Boeing called its new 787 aircraft the Dreamliner, but the project turned into more of a nightmare for managers. The new plane was the company's most popular product ever, mostly because of its innovations, especially in fuel efficiency. However, the plane is two and a half years behind schedule. The first airplanes are scheduled to be delivered to ANA (All Nippon Airways) in the fourth quarter of 2010. Boeing admitted that the project's timeline was way too ambitious even though every detail had been meticulously planned.[2] Some customers (the airlines who ordered the jets)—around 60 in total—got tired of waiting or responded to the changing economic environment and canceled their orders. Could Boeing's managers have planned better?

What Is Planning?

As we stated in Chapter 1, **planning** involves defining the organization's goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate work activities. It's concerned with both ends (what) and means (how).

When we use the term *planning*, we mean *formal* planning. In formal planning, specific goals covering a specific time period are defined. These goals are written and shared with organizational members to reduce ambiguity and create a common understanding about what needs to be done. Finally, specific plans exist for achieving these goals.

Why Do Managers Plan?

Planning seems to take a lot of effort. So why should managers plan? We can give you at least four reasons. First, planning *provides direction* to managers and nonmanagers alike. When employees know what their organization or work unit is trying to accomplish and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross-purposes and prevent the organization from efficiently achieving its goals.

Next, planning *reduces uncertainty* by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. Although planning won't eliminate uncertainty, managers plan so they can respond effectively.

In addition, planning *minimizes waste and redundancy*. When work activities are coordinated around plans, inefficiencies become obvious and can be corrected or eliminated.

Finally, planning *establishes the goals or standards used in controlling*. When managers plan, they develop goals and plans. When they control, they see whether the plans have been carried out and the goals met. Without planning, there would be no goals against which to measure work effort.

Planning and Performance

Is planning worthwhile? Numerous studies have looked at the relationship between planning and performance.[3] Although most showed generally positive relationships, we can't say that organizations that formally plan *always* outperform those that don't plan. What *can* we conclude?

First, generally speaking, formal planning is associated with positive financial results—higher profits, higher return on assets, and so forth. Second, it seems that doing a good job planning and implementing those plans play a bigger part in high performance than does how much planning is done. Next, in those studies where formal planning didn't lead to higher performance, the external environment often was the culprit. When external forces—think governmental regulations or powerful labor unions—constrain managers' options, it reduces the impact planning has on an organization's performance. Finally, the planning-performance relationship seems to be influenced by the planning time frame. It seems that at least four years of formal planning is required before it begins to affect performance.

Goals and Plans

8.2 LEARNING OUTCOME
Classify the types of goals organizations might have and the plans they use.

Planning is often called the primary management function because it establishes the basis for all the other things managers do as they organize, lead, and control. It involves two important aspects: goals and plans.

Goals (objectives) are desired outcomes or targets.[4] They guide management decisions and form the criterion against which work results are measured. That's why they're often described as the essential elements of planning. You have to know the desired target or outcome before you can establish plans for reaching it. **Plans** are documents that outline how goals are going to be met. They usually include resource allocations, schedules, and other necessary actions to accomplish the goals. As managers plan, they develop both goals and plans.

planning
Defining the organization's goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate work activities

goals (objectives)
Desired outcomes or targets

plans
Documents that outline how goals are going to be met

The goal that guides management decisions at Sykes Enterprises is that every client will be more efficient, more profitable, and have stronger loyalty to the company brands due to the services provided by Sykes. As a global outsourcing and consulting service, Sykes operates more than 40 technical help and customer support centers in the Americas, Asia, Europe, and Africa. One of the plans Sykes has for achieving its goal is to employ the best individuals in the industry and to reward them for their commitment to excellence. For example, the well-trained technicians shown here at Sykes' multilingual call center in Manila speak fluent English in responding to clients' questions and providing comprehensive service that ensures customer satisfaction.

Types of Goals

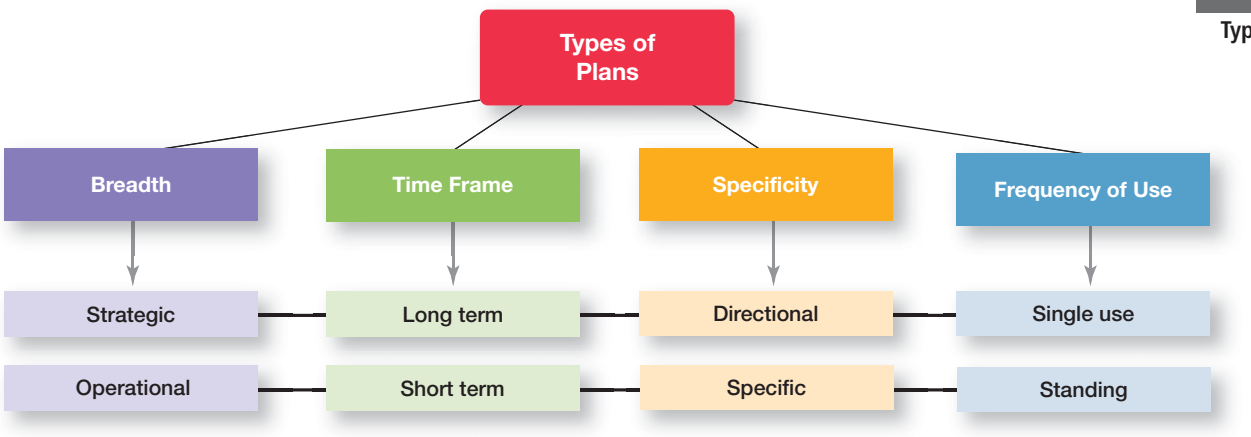
It might seem that organizations have a single goal. Businesses want to make a profit and not-for-profit organizations want to meet the needs of some constituent group(s). However, a single goal can't adequately define an organization's success. And if managers emphasize only one goal, other goals essential for long-term success are ignored. Also, as we discussed in Chapter 5, using a single goal such as profit may result in unethical behaviors because managers and employees will ignore other aspects of their jobs in order to look good on that one measure.[5] In reality, all organizations have multiple goals. For instance, businesses may want to increase market share, keep employees enthused about working for the organization, and work toward more environmentally sustainable practices. And a church provides a place for religious practices, but also assists economically disadvantaged individuals in its community and acts as a social gathering place for church members.

We can classify most company's goals as either strategic or financial. Financial goals are related to the financial performance of the organization, while strategic goals are related to all other areas of an organization's performance. For instance, McDonald's states that its financial targets are 3 to 5 percent average annual sales and revenue growth, 6 to 7 percent average annual operating income growth, and returns on invested capital in the high teens.[6] Here's an example of a strategic goal from Bloomberg L.P.: "We want to be the world's most influential news organization."[7]

The goals just described are **stated goals**—official statements of what an organization says, and what it wants its stakeholders to believe, its goals are. However, stated goals—which can be found in an organization's charter, annual report, public relations announcements, or in public statements made by managers—are often conflicting and influenced by what various stakeholders think organizations should do. For instance, Nike's goal is "delivering inspiration and innovation to every athlete." Canadian company EnCana's vision is to "be the world's high performance benchmark independent oil and gas company." Deutsche Bank's goal is "to be the leading global provider of financial solutions, creating lasting value for our clients, our shareholders and people and the communities in which we operate."[8] Such statements are vague and probably better represent management's public relations skills than being meaningful guides to what the organization is actually trying to accomplish. It shouldn't be surprising then to find that an organization's stated goals are often irrelevant to what actually goes on.[9]

If you want to know an organization's **real goals**—those goals an organization actually pursues—observe what organizational members are doing. Actions define priorities. For example, universities may say their goal is limiting class sizes, facilitating close student-faculty relations, and actively involving students in the learning process, but then they put students into 300+ student lecture classes! Knowing that real and stated goals may differ is important for recognizing what you might otherwise think are inconsistencies.

EXHIBIT 8-1
Types of Plans



Types of Plans

The most popular ways to describe organizational plans are breadth (strategic versus operational), time frame (short term versus long term), specificity (directional versus specific), and frequency of use (single use versus standing). As Exhibit 8-1 shows, these types of plans aren't independent. That is, strategic plans are usually long term, directional, and single use whereas operational plans are usually short term, specific, and standing. What does each include?

Strategic plans are plans that apply to the entire organization and establish the organization's overall goals. Plans that encompass a particular operational area of the organization are called **operational plans**. These two types of plans differ because strategic plans are broad while operational plans are narrow.

The number of years used to define short-term and long-term plans has declined considerably because of environmental uncertainty. Long-term used to mean anything over seven years. Try to imagine what you're likely to be doing in seven years and you can begin to appreciate how difficult it would be for managers to establish plans that far in the future. We define **long-term plans** as those with a time frame beyond three years.[10] **Short-term plans** cover one year or less. Any time period in between would be an intermediate plan. Although these time classifications are fairly common, an organization can use any planning time frame it wants.

Intuitively, it would seem that specific plans would be preferable to directional, or loosely guided, plans. **Specific plans** are clearly defined and leave no room for interpretation. A specific plan states its objectives in a way that eliminates ambiguity and problems with misunderstanding. For example, a manager who seeks to increase his or her unit's work output by 8 percent over a given 12-month period might establish specific procedures, budget allocations, and schedules of activities to reach that goal.

However, when uncertainty is high and managers must be flexible in order to respond to unexpected changes, directional plans are preferable. **Directional plans** are flexible plans that set out general guidelines. They provide focus but don't lock managers into

stated goals
Official statements of what an organization says, and what it wants its various stakeholders to believe, its goals are

real goals
Goals that an organization actually pursues, as defined by the actions of its members

strategic plans
Plans that apply to the entire organization and establish the organization's overall goals

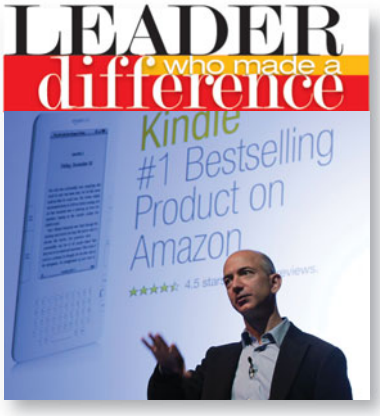
operational plans
Plans that encompass a particular operational area of the organization

long-term plans
Plans with a time frame beyond three years

short-term plans
Plans covering one year or less

specific plans
Plans that are clearly defined and leave no room for interpretation

directional plans
Plans that are flexible and set out general guidelines



Jeff Bezos, founder and CEO of Amazon.com, understands the importance of goals and plans. As a leader, he exudes energy, enthusiasm, and drive.[12] He's fun loving (his legendary laugh has been described as a flock of Canadian geese on nitrous oxide) but has pursued his vision for Amazon with serious intensity and has demonstrated an ability to inspire his employees through the ups and downs of a rapidly growing company. When Bezos founded the company as on online bookstore, his goal was to be the leader in online retailing. Now fifteen years later, Amazon is quickly becoming the world's general store, selling not only books, CDs, and DVDs, but LEGOs, power drills, and Jackalope Buck taxidermy mounts, to name a few of the thousands of products you can buy.

specific goals or courses of action. For example, Sylvia Rhone, president of Motown Records, said she has a simple goal—to "sign great artists."[11] So instead of creating a specific plan to produce and market 10 albums from new artists this year, she might formulate a directional plan to use a network of people around the world to alert her to new and promising talent so she can increase the number of new artists she has under contract. Keep in mind, however, that the flexibility of directional plans must be weighed against the lack of clarity of specific plans.

Some plans that managers develop are ongoing while others are used only once. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. For instance, when Walmart wanted to expand the number of its stores in China, top-level executives formulated a single-use plan as a guide. In contrast, **standing plans** are ongoing plans that provide guidance for activities performed repeatedly. Standing plans include policies, rules, and procedures, which we defined in Chapter 7. An example of a standing plan is the sexual harassment policy developed by the University of Arizona. It provides guidance to university administrators, faculty, and staff as they make hiring plans.

LEARNING OUTCOME
Compare and contrast approaches to goal setting and planning.

8.3

Setting Goals and Developing Plans

Taylor Haines has just been elected president of her business school's honorary fraternity. She wants the organization to be more actively involved in the business school than it has been. Francisco Garza graduated from Tecnologico de Monterrey with a degree in marketing and computers three years ago and went to work for a regional consulting services firm. He recently was promoted to manager of an eight-person e-business development team and hopes to strengthen the team's financial contributions to the firm. What should Taylor and Francisco do now? Their first step should be to set goals.

Approaches to Setting Goals

As we stated earlier, goals provide the direction for all management decisions and actions and form the criterion against which actual accomplishments are measured. Everything organizational members do should be oriented toward achieving goals. These goals can be set either through a traditional process or by using management by objectives.

In **traditional goal setting**, goals set by top managers flow down through the organization and become subgoals for each organizational area. This traditional perspective assumes that top managers know what's best because they see the "big picture." And the goals passed down to each succeeding level guide individual employees as they work to achieve those assigned goals. If Taylor were to use this approach, she would see what goals the dean or director of the school of business had set and develop goals for her group that would contribute to achieving those goals. Or take a manufacturing business, for example. The president tells the vice president of production what he expects manufacturing costs to be for the coming year and tells the marketing vice president what level he expects sales to reach for the year. These goals are passed to the next organizational level and written to reflect the responsibilities of that level, passed to the next level, and so forth. Then, at some later time, performance is evaluated to determine whether the assigned goals have been achieved. Although the process is supposed to happen in this way, in reality it doesn't always do so. Turning broad strategic goals into departmental, team, and individual goals can be a difficult and frustrating process.

Another problem with traditional goal setting is that when top managers define the organization's goals in broad terms—such as achieving "sufficient" profits or increasing "market

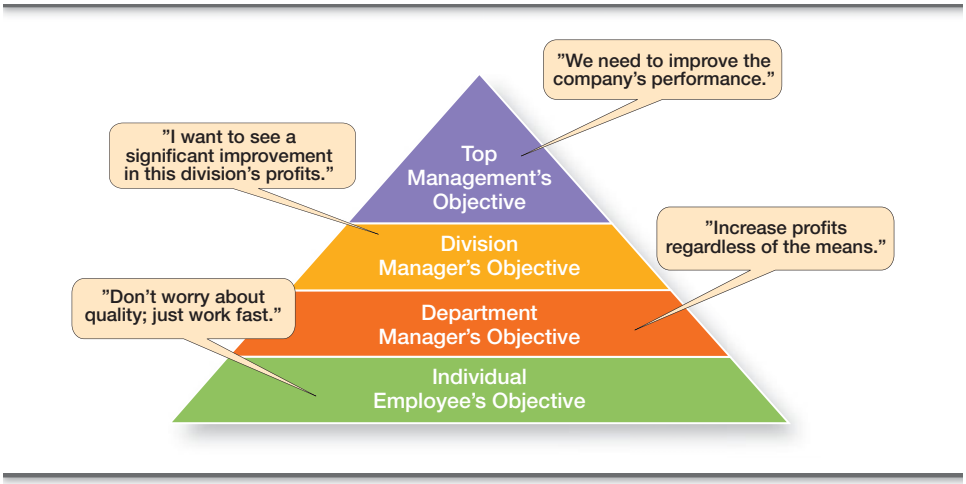


EXHIBIT 8-2
The Downside of Traditional Goal Setting

leadership"—these ambiguous goals have to be made more specific as they flow down through the organization. Managers at each level define the goals and apply their own interpretations and biases as they make them more specific. However, what often happens is that clarity is lost as the goals make their way down from the top of the organization to lower levels. Exhibit 8-2 illustrates what can happen. But it doesn't have to be that way. For example, at the Carrier-Carlyle Compressor Facility in Stone Mountain, Georgia, employees and managers focus their work efforts around goals. Those goals encompass meeting and exceeding customer needs, concentrating on continuous improvement efforts, and engaging the workforce. To keep everyone focused on those goals, a "thermostat"—a 3-foot-by-4-foot metric indicator—found at the employee entrance communicates what factory performance is at any given time and where attention is needed. "The thermostat outlines plant goals across a range of metrics as well as monthly performance against those goals." Company executives state, "We have found that well-executed pre-planning drives improved results." Does their goal approach work? In the past three years, the facility has experienced a nearly 76 percent reduction in customer reject rates and a 54.5 percent reduction in OSHA-recordable injury and illness cases.[13]

When the hierarchy of organizational goals *is* clearly defined, as it is at Carrier-Carlyle Compressor, it forms an integrated network of goals, or a **means-ends chain**. Higher-level goals (or ends) are linked to lower-level goals, which serve as the means for their accomplishment. In other words, the goals achieved at lower levels become the means to reach the goals (ends) at the next level. And the accomplishment of goals at that level becomes the means to achieve the goals (ends) at the next level and on up through the different organizational levels. That's how traditional goal setting is supposed to work.

Instead of using traditional goal setting, many organizations use **management by objectives (MBO)**, a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. If Francisco were to use this approach, he would sit down with each member of his team and set goals and periodically review whether progress was being made toward achieving those goals. MBO programs have four elements: goal specificity, participative decision making, an explicit time period, and performance feedback.[14] Instead of using goals to make sure employees are doing what they're supposed to be doing,

single-use plan
A one-time plan specifically designed to meet the needs of a unique situation

standing plans
Ongoing plans that provide guidance for activities performed repeatedly

traditional goal setting
An approach to setting goals in which top managers set goals that then flow down through the organization and become subgoals for each organizational area

means-ends chain
An integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next level

management by objectives (MBO)
A process of setting mutually agreed-upon goals and using those goals to evaluate employee performance

EXHIBIT 8-3
Steps in MBO

1. The organization's *overall objectives and strategies* are formulated.
2. Major objectives are allocated among *divisional and departmental units*.
3. Unit managers *collaboratively set specific objectives* for their units with their managers.
4. Specific objectives are collaboratively set with *all department members*.
5. *Action plans*, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
6. The action plans are *implemented*.
7. Progress toward objectives is *periodically reviewed*, and *feedback is provided*.
8. Successful achievement of objectives is reinforced by *performance-based rewards.*

MBO uses goals to motivate them as well. The appeal is that it focuses on employees working to accomplish goals they've had a hand in setting. Exhibit 8-3 lists the steps in a typical MBO program.

Does MBO work? Studies have shown that it can increase employee performance and organizational productivity. For example, one review of MBO programs found productivity gains in almost all of them.[15] But is MBO relevant for today's organizations? If it's viewed as a way of setting goals, then yes, because research shows that goal setting can be an effective approach to motivating employees.[16]

CHARACTERISTICS OF WELL-WRITTEN GOALS. Goals aren't all written the same way. Some are better than others at making the desired outcomes clear. For instance, the CEO of Procter & Gamble said that he wants to see the company add close to 548,000 new customers a day, every day, for the next five years.[17] It's an ambitious but specific goal. Managers should be able to write well-written goals. What makes a "well-written" goal?[18] Exhibit 8-4 lists the characteristics.

STEPS IN GOAL SETTING. Managers should follow five steps when setting goals.

1. *Review the organization's* **mission**, *or purpose*. A mission is a broad statement of an organization's purpose that provides an overall guide to what organizational members think is important. Managers should review the mission before writing goals because goals should reflect that mission.
2. *Evaluate available resources*. You don't want to set goals that are impossible to achieve given your available resources. Even though goals should be challenging, they should be realistic. After all, if the resources you have to work with won't allow you to achieve a goal no matter how hard you try or how much effort is exerted, you shouldn't set that goal. That would be like the person with a $50,000 annual income and no other financial resources setting a goal of building an investment portfolio worth $1 million in three years. No matter how hard he or she works at it, it's not going to happen.
3. *Determine the goals individually or with input from others*. The goals reflect desired outcomes and should be congruent with the organizational mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment.

EXHIBIT 8-4
Well-Written Goals

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear as to a time frame
- Challenging yet attainable
- Written down
- Communicated to all necessary organizational members

4. *Write down the goals and communicate them to all who need to know*. Writing down and communicating goals forces people to think them through. The written goals also become visible evidence of the importance of working toward something.
5. *Review results and whether goals are being met*. If goals aren't being met, change them as needed.

Once the goals have been established, written down, and communicated, a manager is ready to develop plans for pursuing the goals.

Developing Plans

The process of developing plans is influenced by three contingency factors and by the planning approach followed.

CONTINGENCY FACTORS IN PLANNING. Look back at our chapter-opening "A Manager's Dilemma." How will Lou Policastro and other aid relief managers know what types of plans to develop for what needs to get done in responding to the Haiti disaster? Three contingency factors affect the choice of plans: organizational level, degree of environmental uncertainty, and length of future commitments.[20]

Exhibit 8-5 shows the relationship between a manager's level in the organization and the type of planning done. For the most part, lower-level managers do operational planning while upper-level managers do strategic planning.

The second contingency factor is environmental uncertainty, a factor that was quite obvious in the chapter-opening Haitian relief effort example. When uncertainty is high, plans should be specific, but flexible. Managers must be prepared to change or amend plans as they're implemented. At times, they may even have to abandon the plans.[21] For example, prior to Continental Airlines' merger with United Airlines, the former CEO and his management team established a specific goal of focusing on what customers wanted most—on-time flights—to help the company become more competitive in the highly uncertain airline industry. Because of the high level of uncertainty, the management team identified a "destination, but not a flight plan," and changed plans as necessary to achieve that goal of on-time service.

The last contingency factor also is related to the time frame of plans. The **commitment concept** says that plans should extend far enough to meet those commitments made when the plans were developed. Planning for too long or too short a time period is inefficient and ineffective. What happened at AT&T with the iPhone is a good example of why it's important to

by the numbers[19]

51 percent of managers said they were approaching planning differently by using more business scenarios and data-driven approaches.

47 percent of managers said their organization's projects always or often meet their goals.

69 percent of managers said teams are not given enough resources to complete projects.

7 percent of information executives said they have no plan for disaster recovery.

75 percent of managers said their company's planning approach wasn't working.

19 percent of executives said that planning was an important skill.

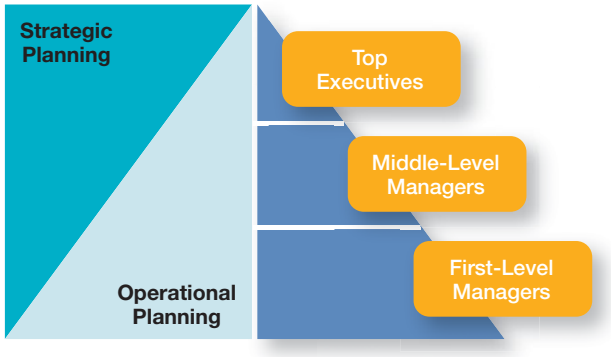


EXHIBIT 8-5
Planning and Organizational Level

mission
The purpose of an organization

commitment concept
Plans should extend far enough to meet those commitments made when the plans were developed

Let's Get Real

F2F

Planning I do includes *looking at the job before me and breaking it into smaller components. For example, if a client is expecting 500 guests for a fundraiser, I ask myself what would I do if this was for 100 guests. That way, we can ensure that client and guests experience the same high-quality service and attention to detail for a large event as that for a smaller, more intimate event.*

understand the commitment concept. When it secured exclusive rights to support the iPhone on its wireless network in June 2007, both Apple and AT&T vastly underestimated the phone's popularity—some 42.4 million have been sold. And then there's all those apps—at least 140,000 different ones that have been downloaded some 3 billion times—many of which consume bandwidth. AT&T's network "simply can't handle the traffic." AT&T's Operations president John Stankey said, "We missed on our usage estimates." As the company discovered, the bandwidth-hungry super-phone has created serious challenges.[22] How does this illustrate the commitment concept? In becoming the primary provider of the iPhone, AT&T "committed" to whatever future expenses are generated by that planned decision. And they have to live with the decision and its consequences, good and bad.

Approaches to Planning

Federal, state, and local government officials are working together on a plan to boost populations of wild salmon in the northwestern United States. Managers in the Global Fleet Graphics division of the 3M Company are developing detailed plans to satisfy increasingly demanding customers and to battle more aggressive competitors. Emilio Azcárraga Jean, chairman, president, and CEO of Grupo Televisa, gets input from many different people before setting company goals and then turns over the planning for achieving the goals to various executives. In each of these situations, planning is done a little differently. *How* an organization plans can best be understood by looking at *who* does the planning.

In the traditional approach, planning is done entirely by top-level managers who often are assisted by a **formal planning department**, a group of planning specialists whose sole responsibility is to help write the various organizational plans. Under this approach, plans developed by top-level managers flow down through other organizational levels, much like the traditional approach to goal-setting. As they flow down through the organization, the plans are tailored to the particular needs of each level. Although this approach makes managerial planning thorough, systematic, and coordinated, all too often the focus is on developing "the plan," a thick binder (or binders) full of meaningless information that's stuck away on a shelf and never used by anyone for guiding or coordinating work efforts. In fact, in a survey of managers about formal top-down organizational planning processes, over 75 percent said that their company's planning approach was unsatisfactory.[23] A common complaint was that, "plans are documents that you prepare for the corporate planning staff and later forget." Although this traditional top-down approach to planning is used by many organizations, it can be effective only if managers understand the importance of creating documents that organizational members actually use, not documents that look impressive but are never used.

Another approach to planning is to involve more organizational members in the process. In this approach, plans aren't handed down from one level to the next, but instead are developed by organizational members at the various levels and in the various work units to meet their specific needs. For instance, at Dell, employees from production, supply management, and channel management meet weekly to make plans based on current product demand and supply. In addition, work teams set their own daily schedules and track their progress against those schedules. If a team falls behind, team members develop "recovery" plans to try to get back on schedule.[24] When organizational members are more actively involved in planning, they see that the plans are more than just something written down on paper. They can actually see that the plans are used in directing and coordinating work.

LEARNING OUTCOME 8.4
Discuss contemporary issues in planning.

Contemporary Issues in Planning

The second floor of the 21-story Hyundai Motor headquarters buzzes with data 24 hours a day. That's where you'd find the company's Global Command and Control Center (GCCC), which is modeled after the CNN newsroom with "dozens of computer screens relaying video and data keeping watch on Hyundai operations around the world." Managers get information on parts shipments from suppliers to factories. Cameras watch assembly lines and "keep a close watch on Hyundai's giant Ulsan, Korea, plant, the world's largest integrated auto

factory" looking for competitors' spies and any hints of labor unrest. The GCCC also keeps tabs on the company's R&D activities in Europe, Japan, and North America. Hyundai can identify problems in an instant and react quickly. The company is all about aggressiveness and speed and is representative of how a successful twenty-first-century company approaches planning.[25]

We conclude this chapter by addressing two contemporary issues in planning. Specifically, we're going to look at planning effectively in dynamic environments and then at how managers can use environmental scanning, especially competitive intelligence.

How Can Managers Plan Effectively in Dynamic Environments?

As we saw in Chapter 2, the external environment is continually changing. For instance, cloud computing storage is revolutionizing all kinds of industries from financial services to health care to engineering.[26] Social networking sites are being used by companies to connect with customers, employees, and potential employees. Amounts spent on eating out instead of cooking at home are predicted to decline. And experts believe that China and India are transforming the twenty-first-century global economy.

How can managers effectively plan when the external environment is continually changing? We already discussed uncertain environments as one of the contingency factors that affect the types of plans managers develop. Because dynamic environments are more the norm than the exception, let's look at how managers can effectively plan in such environments.

In an uncertain environment, managers should develop plans that are specific, but flexible. Although this may seem contradictory, it's not. To be useful, plans need some specificity, but the plans should not be set in stone. Managers need to recognize that planning is an ongoing process. The plans serve as a road map although the destination may change due to dynamic market conditions. They should be ready to change directions if environmental conditions warrant. This flexibility is particularly important as plans are implemented. Managers need to stay alert to environmental changes that may impact implementation and respond as needed. Keep in mind, also, that even when the environment is highly uncertain, it's important to continue formal planning in order to see any effect on organizational performance. It's the persistence in planning that contributes to significant performance improvement. Why? It seems that, as with most activities, managers "learn to plan" and the quality of their planning improves when they continue to do it.[27] Finally, make the organizational hierarchy flatter to effectively plan in dynamic environments. This means allowing lower organizational levels to set goals and develop plans because there's little time for goals and plans to flow down from the top. Managers should teach their employees how to set goals and to plan and then trust them to do it. And you need look no further than Bangalore, India, to find a company that effectively understands this. Just a decade ago, Wipro Limited was "an anonymous conglomerate selling cooking oil and personal computers, mostly in India." Today, it's a $6 billion-a-year global company with much of its business coming from information-technology services.[28] Accenture, Hewlett-Packard, IBM, and the big U.S. accounting firms know all too well the competitive threat Wipro represents. Not only are Wipro's employees economical, they're knowledgeable and skilled. And they play an important role in the company's planning. Because the information services industry is continually changing, employees are taught to analyze situations and to define the scale and scope of a client's problems in order to offer the best solutions. These employees are the ones on the front line with the clients and it's their responsibility to establish what to do and how to do it. It's an approach that positions Wipro for success no matter how the industry changes.

formal planning department
A group of planning specialists whose sole responsibility is helping to write organizational plans

Scanning the environment helps Toyota Motor Corporation managers detect emerging trends that influence the company's future plans. Based on trends in computing and communications technology plus demographic trends such as a rapidly aging population and a decreasing birthrate in Japan and other developing nations, Toyota sees robotics as a key business in coming years. Its violin-playing robot, with 17 joints in each hand and arm, has the precise control and coordination to achieve humanlike agility for performing domestic chores like folding laundry and medical tasks such as dispensing medicine. Toyota and competitors such as Honda and Hitachi are racing to build robots that will serve the needs of the elderly in Japan, where 40 percent of the population is expected to be older than 65 by 2055, and in other global markets.

How Can Managers Use Environmental Scanning?

Crammed into a small Shanghai apartment that houses four generations of a Chinese family, Indra Nooyi, Chairman and CEO of PepsiCo Inc., asked the inhabitants several questions about "China's rapid development, their shopping habits, and how they feel about Western brands." This visit was part of an "immersion" tour of China for Ms. Nooyi, who hopes to strengthen PepsiCo's business in emerging markets. She said, "I wanted to look at how people live, how they eat, what the growth possibilities are."[29] The information gleaned from her research—a prime example of environmental scanning up close and personal—will help in establishing PepsiCo's future goals and plans.

A manager's analysis of the external environment may be improved by **environmental scanning**, which involves screening information to detect emerging trends. One of the fastest-growing forms of environmental scanning is **competitor intelligence**, which is gathering information about competitors that allows managers to anticipate competitors' actions rather than merely react to them.[30] It seeks basic information about competitors: Who are they? What are they doing? How will what they're doing affect us?

Many who study competitive intelligence suggest that much of the competitor-related information managers need to make crucial strategic decisions is available and accessible to the public.[31] In other words, competitive intelligence isn't corporate espionage. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, want ads, newspaper reports, information on the Internet, and industry studies are readily accessible sources of information. Specific information on an industry and associated organizations is increasingly available through electronic databases. Managers can literally tap into this wealth of competitive information by purchasing access to databases. Attending trade shows and debriefing your own sales staff also can be good sources of information on competitors. In addition, many organizations even regularly buy competitors' products and ask their own employees to evaluate them to learn about new technical innovations.[32]

In a changing global business environment, environmental scanning and obtaining competitive intelligence can be quite complex, especially since information must be gathered

environmental scanning
Screening information to detect emerging trends

competitor intelligence
Gathering information about competitors that allows managers to anticipate competitors' actions rather than merely react to them

from around the world. However, one thing managers could do is subscribe to news services that review newspapers and magazines from around the globe and provide summaries to client companies.

Managers do need to be careful about the way information, especially competitive intelligence, is gathered to prevent any concerns about whether it's legal or ethical.[33] For instance, Starwood Hotels recently sued Hilton Hotels alleging that two former employees stole trade secrets and helped Hilton develop a new line of luxury, trendy hotels designed to appeal to a young demographic.[34] The court filing said, "This is the clearest imaginable case of corporate espionage, theft of trade secrets, unfair competition, and computer fraud." Competitive intelligence becomes illegal corporate spying when it involves the theft of proprietary materials or trade secrets by any means. The Economic Espionage Act makes it a crime in the United States to engage in economic espionage or to steal a trade secret. Difficult decisions about competitive intelligence arise because often there's a fine line between what's considered *legal and ethical* and what's considered *legal but unethical.* Although the top manager at one competitive intelligence firm contends that 99.9 percent of intelligence gathering is legal, there's no question that some people or companies will go to any lengths—some unethical—to get information about competitors.[35]

Let's Get Real:

My Response *to A Manager's Dilemma, page 204*

A crisis the magnitude of the Haitian earthquake requires a global response, which is exactly what happened. The timing of the disaster on a holiday weekend was unfortunate, but no one can fault the herculean efforts of the WFP in their response to the crisis. In the shadow of Hurricane Katrina, agencies such as the WFP were intensely scrutinized and obviously had fairly well laid out action plans for disasters such as this. That being said, no amount of planning can prepare for the devastation that the relief teams found in Haiti.

Getting the military involved from the outset was a key factor. They are at a constant state of readiness and are trained first responders. The military command should take control of damage assessment, procuring local equipment, and mobilizing shipments of additional equipment necessary to get runways repaired and open and seaports in working order. The WFP should immediately take the lead and begin centralizing food and relief supplies from the myriad of relief agencies across the country and begin scheduling shipments accordingly.

In general, the actual relief operation was impressive and efficient and argues well for the effectiveness of good planning.

What Would You Do?

Chuck Pick
President
Chuck's Parking Service, Inc.
Sherman Oaks, CA

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 8.1

Define the nature and purposes of planning.

Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing plans for organizational work activities. The four purposes of planning include providing direction, reducing uncertainty, minimizing waste and redundancy, and establishing the goals or standards used in controlling. Studies of the planning-performance relationship have concluded that formal planning is associated with positive financial performance, for the most part; it's more important to do a good job of planning and implementing the plans than doing more extensive planning; the external environment is usually the reason why companies that plan don't achieve high levels of performance; and the planning-performance relationship seems to be influenced by the planning time frame.

LEARNING OUTCOME 8.2

Classify the types of goals organizations might have and the plans they use.

Goals are desired outcomes. Plans are documents that outline how goals are going to be met. Goals might be strategic or financial and they might be stated or real. Strategic plans apply to the entire organization while operational plans encompass a particular functional area. Long-term plans are those with a time frame beyond three years. Short-term plans cover one year or less. Specific plans are clearly defined and leave no room for interpretation. Directional plans are flexible and set out general guidelines. A single-use plan is a one-time plan designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly.

LEARNING OUTCOME 8.3

Compare and contrast approaches to goal setting and planning.

In traditional goal setting, goals are set at the top of the organization and then become subgoals for each organizational area. MBO (management by objectives) is a process of setting mutually agreed-upon goals and using those goals to evaluate employee performance. Well-written goals have six characteristics: (1) written in terms of outcomes, (2) measurable and quantifiable, (3) clear as to time frame, (4) challenging but attainable, (5) written down, and (6) communicated to all organizational members who need to know them. Goal setting involves these steps: review the organization's mission; evaluate available resources; determine the goals individually or with input from others; write down the goals and communicate them to all who need to know them; and review results and change goals as needed. The contingency factors that affect planning include the manager's level in the organization, the degree of environmental uncertainty, and the length of future commitments. The two main approaches to planning include the traditional approach, which has plans developed by top managers that flow down through other organizational levels and which may use a formal planning department. The other approach is to involve more organizational members in the planning process.

LEARNING OUTCOME 8.4

Discuss contemporary issues in planning.

One contemporary planning issue is planning in dynamic environments, which usually means developing plans that are specific but flexible. Also, it's important to continue planning even when the environment is highly uncertain. Finally, because there's little time in a dynamic environment for goals and plans to flow down from the top, lower organizational levels should be allowed to set goals and develop plans. Another contemporary planning issue involves using environmental scanning to help do a better analysis of the external environment. One form of environmental scanning, competitive intelligence, can be especially helpful in finding out what competitors are doing.

mymanagementlab To check your understanding of learning outcomes 8.1 – 8.4 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Explain what studies have shown about the relationship between planning and performance.
2. Discuss the contingency factors that affect planning.
3. Describe how managers can effectively plan in today's dynamic environment.
4. Will planning become more or less important to managers in the future? Why?
5. If planning is so crucial, why do some managers choose not to do it? What would you tell these managers?
6. Explain how planning involves making decisions today that will have an impact later.
7. How might planning in a not-for-profit organization such as the American Cancer Society differ from planning in a for-profit organization such as Coca-Cola?
8. What types of planning do you do in your personal life? Describe these plans in terms of being (a) strategic or operational, (b) short term or long term, and (c) specific or directional.
9. The late Peter Drucker, an eminent management author, coined the SMART format for setting goals back in 1954: S (specific), M (measurable), A (attainable), R (relevant), and T (time-bound). Are these still relevant today? Discuss.
10. Many companies have a goal of becoming more environmentally sustainable. One of the most important steps they can take is controlling paper waste. Choose a company—any type, any size. You've been put in charge of creating a program to do this for your company. Set goals and develop plans. Prepare a report for your boss (that is, your professor) outlining these goals and plans.

PREPARING FOR: My Career

ETHICS DILEMMA

As companies prepared plans to keep their businesses operating if the H1N1 (swine) flu pandemic materialized, thorny issues arose. At one small business, for example, the boss sent two employees home on "indefinite leave" after the employees' children's school was closed down because of an H1N1 outbreak there. Neither of their children had flu symptoms, nor did the employees. Now they're out of paid sick day leaves and are losing pay. At Procter & Gamble, executives asked company doctors whether it should try to secure a private stash of Tamiflu for its staff. One of the company's medical leaders responded, "How ethical would it be if we were holding supplies that the general public didn't have access to but badly needed?"[36] What do you think? Is it ethical for a business to be overly cautious in protecting employees? Is it ethical for a company to protect its own employees at the expense of public protection? What would you do in this situation?

SKILLS EXERCISE

Developing Your Goal Setting Skill

About the Skill

Employees should have a clear understanding of what they're attempting to accomplish. In addition, managers have the responsibility for seeing that this is done by helping employees set work goals. Setting goals is a skill every manager needs to develop.

Steps in Practicing the Skill

You can be more effective at setting goals if you use the following eight suggestions.

1. *Identify an employee's key job tasks.* Goal setting begins by defining what it is that you want your employees to accomplish. The best source for this information is each employee's job description.
2. *Establish specific and challenging goals for each key task.* Identify the level of performance expected of each employee. Specify the target toward which the employee is working.

3. *Specify the deadlines for each goal.* Putting deadlines on each goal reduces ambiguity. Deadlines, however, should not be set arbitrarily. Rather, they need to be realistic given the tasks to be completed.
4. *Allow the employee to actively participate.* When employees participate in goal setting, they're more likely to accept the goals. However, it must be sincere participation. That is, employees must perceive that you are truly seeking their input, not just going through the motions.
5. *Prioritize goals.* When you give someone more than one goal, it's important for you to rank the goals in order of importance. The purpose of prioritizing is to encourage the employee to take action and expend effort on each goal in proportion to its importance.
6. *Rate goals for difficulty and importance.* Goal setting should not encourage people to choose easy goals. Instead, goals should be rated for their difficulty and importance. When goals are rated, individuals can be given credit for trying difficult goals, even if they don't fully achieve them.
7. *Build in feedback mechanisms to assess goal progress.* Feedback lets employees know whether their level of effort is sufficient to attain the goal. Feedback should be both self-generated and supervisor generated. In either case, feedback should be frequent and recurring.
8. *Link rewards to goal attainment.* It's natural for employees to ask, "What's in it for me?" Linking rewards to the achievement of goals will help answer that question.

Practicing the Skill

1. Where do you want to be in five years? Do you have specific five-year goals? Establish three goals you want to achieve in five years. Make sure these goals are specific, challenging, and measurable.
2. Set personal and academic goals you want to achieve by the end of this college term. Prioritize and rate them for difficulty.

WORKING TOGETHER

Team Exercise

Form small groups of three to four individuals and read through the following scenario. Complete the work that's called for. Be sure that your goals are well designed and that your plans are descriptive.

Scenario

Facing dire budget predictions, many school districts are moving to a four-day week. Of nearly 15,000-plus districts nationwide, more than 100 in at least 17 states have moved to the four-day system.[37] Suppose that you are employed by a school district in San Antonio, Texas, that is going to move to a four-day week by the start of the next school year. What type of planning would need to be done as your school district embarked on this process? Identify three or four primary goals for accomplishing this action. Then, describe what plans would be needed to ensure that those goals are met.

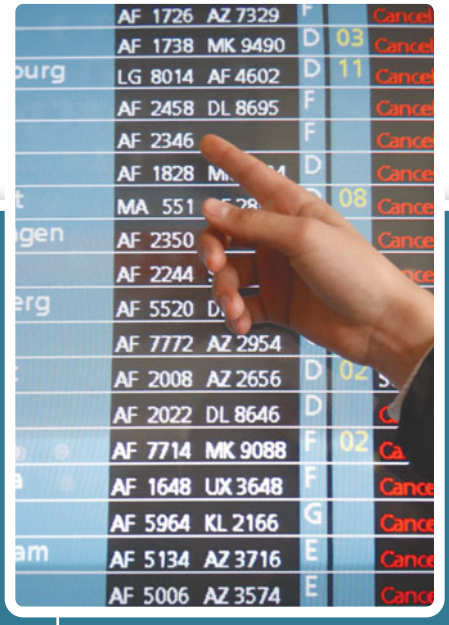
MY TURN TO BE A MANAGER

- Practice setting goals for various aspects of your personal life such as academics, career preparation, family, hobbies, and so forth. Set at least two short-term goals and at least two long-term goals for each area.
- For these goals that you have set, write out plans for achieving those goals. Think in terms of what you will have to do to accomplish each. For instance, if one of your academic goals is to improve your grade-point average, what will you have to do to reach it?
- Write a personal mission statement. Although this may sound simple to do, it's not going to be simple or easy. Our hope is that it will be something that you'll want to keep, use, and revise when necessary, and that it will help you be the person you'd like to be and live the life you'd like to live. Start by doing some research on personal mission statements. There are some wonderful Web resources that can guide you. Good luck!
- Interview three managers about the types of planning they do. Ask them for suggestions on how to be a better planner. Write a report describing and comparing your findings.
- Choose two companies, preferably in different industries. Research the companies' Web sites and find examples of goals that they have stated. (Hint: A company's annual report is often a good place to start.) Evaluate these goals. Are they well-written? Rewrite those that don't exhibit the characteristics of well-written goals so that they do.

- Steve's and Mary's suggested readings: Atul Gawande, *The Checklist Manifesto: How to Get Things Right* (Metropolitan Books, 2009); Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (Harper Business, 1974); Peter F. Drucker, *The Executive in Action; Managing for Results* (Harper Business, 1967); and Peter F. Drucker, *The Practice of Management* (HarperCollins, 1954).
- What does it take to be a good planner? Do some research on this issue. As part of your research, talk to professors and other professionals. Make a bulleted list of suggestions. Be sure to cite your sources.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What's My Attitude Toward Achievement? What Are My Course Performance Goals? What Time of Day Am I Most Productive? and How Good Am I at Personal Planning? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Icelandic Volcano, 1; Global Commerce, 0



A flight information screen at an airport outside of Paris lists commercial airline cancellations in cities across northern Europe as a result of the drifting plume of ash that spread thousands of miles from the Icelandic volcano eruption, disrupting air travel and global commerce.

This volcano has a funny name—Eyjafjallajokull—but its impact was not so funny to global businesses, both large and small.[38] When it erupted on April 14, 2010, the plume of volcanic ash that spread across thousands of miles disrupted air travel and global commerce for a number of days.

As thousands of flights were canceled across Europe, tens of thousands of air travelers couldn't get to their destination. For example, Marthin De Beer, vice president of emerging technologies at Cisco Systems, was headed to Oslo to discuss the final aspects of its acquisition of Tandberg, a Norwegian teleconferencing company. However, when his flight was canceled, he and Tandberg's CEO, Fredrik Halvorsen, used their merged companies' equipment to hold a virtual press conference. Other businesses weren't as lucky, especially those with high-value, highly perishable products such as berries, fresh fish and flowers, and medicines and pharmaceuticals. African farmers, European fresh-produce importers, and flower traders from Kenya to the Netherlands found their businesses threatened by the air traffic shutdown. Even manufacturers were affected. For instance, BMW had to scale back work hours and had even prepared for possibly shutting down production at its Spartanburg, South Carolina, plant because it depended on trans-Atlantic flights to bring transmissions and other components from German factories by air. A spokesperson at another automobile company, Mercedes-Benz, said, "There has been disruption in our parts supply. We expect that there may be shortages of some parts or delays in some instances."

Discussion Questions

1. Could a company even plan for this type of situation? If yes, how? If not, why not?
2. Would goals be useful in this type of situation? What types of goals might a manufacturing company like BMW have in such a situation? How about a global airline? How about a small flower grower in Kenya?
3. What types of plans could companies use in this type of situation? Explain why you think these plans would be important.
4. What lessons about planning can managers learn from this crisis?

CASE APPLICATION 2

Building a Future

Habitat for Humanity is a nonprofit, ecumenical Christian housing ministry whose mission is to "eliminate poverty and homelessness from the world and to make decent shelter a matter of conscience and action."[39] The organization was founded by Millard and Linda Fuller in 1976 in Americus, Georgia. More than 300,000 Habitat houses have been built, sheltering more than 1.5 million people around the world. These houses can be found in all 50 states of the United States, the District of Columbia, Guam, Puerto Rico, and more than 90 countries around the world. "Thousands of low-income families have found new hope in this form of affordable housing."

Habitat's approach is simple. Families in need of decent housing apply to local Habitat for Humanity affiliates. Homeowners are chosen based on their level of need, their willingness to become partners in the program, and their ability to repay the loan. And that's the unique thing about Habitat's approach. It's not a giveaway program. Families chosen to become homeowners have to make a down payment and monthly mortgage payments, and invest hundreds of hours of their own labor into building their Habitat home and helping build other Habitat houses. Habitat volunteers provide labor and donations of money and materials as well. (Maybe some of you have helped in a Habitat build.)

In 2009, J. Ronald Terwilliger, a former CEO of housing developer Trammell Crow Residential Co., who also has been a long-time member of Habitat's board of directors, made a $100 million commitment to Habitat. He says that "through his work with Habitat and in the private sector, he's witnessed the depths of poverty, seeing people living in cardboard shacks and unspeakable filth, as well as the struggle for middle-class families to find affordable housing." According to the Center on Philanthropy at Indiana University, "It's one of the largest gifts in recent years to a group devoted to social services." Terwilliger's gift is intended to give people a helping hand toward a decent, safe clean home. And it's intended to send a message to other philanthropists to "step up their giving." As for Habitat, its CEO, Jonathan Reckford, said, "This is a chance to have a really deep impact." Having that type of impact when the needs now are greater than ever is a definite planning challenge for the organization and its managers.

Discussion Questions

1. What role do you think goals would play in planning for the wise use of this gift? List some goals you think might be important. (Make sure these goals have the characteristics of well-written goals.)
2. What types of plans would be needed in wisely using this gift? (For instance, long-term or short-term, or both?) Explain why you think these plans would be important.
3. What contingency factors might affect the planning Habitat executives have to do for the wise use of this gift? How might those contingency factors affect the planning?
4. What planning challenges do you think Habitat executives face with getting the most use out of this gift? How should they cope with those challenges?

9 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Sid Gokhale
President
Dowden Custom Media
Montvale, NJ

MY JOB:
I'm the president of a strategic health care communications company.

BEST PART OF MY JOB:
Working with a diverse group of people and tapping into their expertise and talents. You need to leverage your employees' strengths. I know that I'm not an expert in all aspects of the business, which is why we have specialists in editorial, design, Internet technology, and project management—all working toward a common goal.

Strategic Management

LEARNING OUTCOMES

9.1 **Define** strategic management and explain why it's important. *page 224*

9.2 **Explain** what managers do during the six steps of the strategic management process. *page 226*

9.3 **Describe** the three types of corporate strategies. *page 228*

9.4 **Describe** competitive advantage and the competitive strategies organizations use to get it. *page 231*

9.5 **Discuss** current strategic management issues. *page 234*

WORST PART OF MY JOB:
To say no, especially because of forces beyond your control. You always want to go the extra mile to please your stakeholders, who include your employees and customers. When you can't because of environmental factors or other limitations, it's tough.

BEST MANAGEMENT ADVICE EVER RECEIVED:
Listen first, speak later. In order to understand the market, your customers, and your employees, you need to hear what they have to say and then work toward crafting a solution for their needs.

A Manager's Dilemma

Shut Up Kanye (published soon after the MTV VMAs) and *Where's the Naughty Governor?* (published just after South Carolina governor Mark Sanford admitted to having an affair) are just two of the online games offered by MTV Network's subsidiary AddictingGames.[1]

As vice president of AddictingGames, the largest free online-games site for teens, Kate Connally is responsible for managing the subsidiary that was acquired by MTV Networks in 2005. Keeping 15.3 million unique monthly visitors happy and coming back is a real challenge. To do so, "Connally taps a network of 1,000 Flash developers, publishing a new game every day and 12 on Fridays." Those developers are found globally from Canada to India. Having access to such a globally connected network is how the company is able to respond almost overnight to current events like Kanye's outburst at the VMAs and Governor Sanford's affair disclosure.

Now, Connelly is overseeing a major strategic change—bringing those online games to the iPhone. She said, "Media companies need to provide experiences wherever their audiences are, and the iPhone is really where we're seeing the audience go." How could SWOT analysis help her?

What Would You Do?

The importance of having good strategies can be seen by what Kate Connally has accomplished with AddictingGames. By recognizing game opportunities in current news stories and in new formats and formulating effective strategies to exploit these opportunities, her company has become the leader in online gaming. As she continues expanding access to those games, strategic management will continue to play an important role in the company's ability to continue to be the most popular online games site. An underlying theme in this chapter is that effective strategies result in high organizational performance.

LEARNING OUTCOME 9.1
Define strategic management and explain why it's important.

Strategic Management

- Vente-privee.com, one of Europe's top e-tailers, is looking to expand in Europe, but not in the United States, where competition from outlet malls and discounters is too great.
- Facing intense pressure from users over privacy issues, Facebook CEO Mark Zuckerberg unveiled a new set of controls to help people better understand what information they are sharing online.
- Charles Schwab, chairman and founder of his namesake financial services company, is worried about his customers, especially since his company's success depends on his financial advisers' ability to keep those customers "engaged" in equities markets.
- The private equity firm, C. Dean Metropoulos & Company, has reached an agreement to buy Pabst Blue Ribbon, a once-popular beer brand, with hopes of rebuilding its share in a competitive market.[2]

These are just a few of the business news stories from a single week, and each one is about a company's strategies. Strategic management is very much a part of what managers do. In this section, we want to look at what strategic management is and why it's important.

What Is Strategic Management?

The discount retail industry is a good place to see what strategic management is all about. Walmart and Kmart Corporation (now part of Sears Holdings) have battled for market dominance since 1962, the year both companies were founded. The two chains have other similarities: store atmosphere, names, markets served, and organizational purpose. Yet, Walmart's performance (financial and otherwise) has far surpassed that of Kmart. Walmart is the world's largest retailer and Kmart was the largest retailer ever to seek Chapter 11 bankruptcy protection. Why the difference in performance? Because

of different strategies and competitive abilities.[3] Walmart has excelled by using strategic management effectively while Kmart has struggled by failing to use strategic management effectively.

Strategic management is what managers do to develop the organization's strategies. It's an important task involving all the basic management functions—planning, organizing, leading, and controlling. What are an organization's **strategies**? They're the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.[4]

One term often used in strategic management is **business model**, which simply is how a company is going to make money. It focuses on two things: (1) whether customers will value what the company is providing, and (2) whether the company can make any money doing that.[5] For instance, Dell pioneered a new business model for selling computers to consumers directly online instead of selling through computer retailers like other manufacturers. Did customers "value" that? Absolutely! Did Dell make money doing it that way? Absolutely! As managers think about strategies, they need to think about the economic viability of their company's business model.

Why Is Strategic Management Important?

In the summer of 2002, a British television show spin-off called *American Idol* became one of the biggest shows in American television history. Nine seasons later, it's still the most-watched show on television although its audience has declined for four seasons. However, the show's executive producer said, "If we're smart about it, there's no reason why 'Idol' wouldn't keep going. Just look at 'Price is Right.' It's been on for over 35 years."[6] The managers behind *Idol* seem to understand the importance of strategic management as they've developed and exploited every aspect of the *Idol* business—the television show, the music, the concerts, and all the other associated licensed products. Now, their challenge is to keep the franchise a strong presence in the market by making strategic changes.

Why is strategic management so important? There are three reasons. The most significant one is that it can make a difference in how well an organization performs. Why do some

Wang Chuanfu recognizes the importance of strategic management to improve organizational performance. Chuanfu is the CEO of BYD, a firm he started in 1995 in Shenzhen, China, to make and sell rechargeable batteries for computers. Today BYD is a top battery supplier to both computer and cell phone makers. Recognizing an opportunity to build profits by entering a new market, Chuanfu bought a struggling car company in China and applied his core technology of rechargeable batteries to producing electric cars. Chuanfu, shown here with his e6 fuel-efficient and environmentally friendly electric car, hopes to capture a good part of the worldwide global market for electric cars that's predicted to be as big as 10 million cars per year by 2016.

strategic management
What managers do to develop the organization's strategies

strategies
The plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals

business model
How a company is going to make money

businesses succeed and others fail, even when faced with the same environmental conditions? (Remember our Walmart and Kmart example.) Research has found a generally positive relationship between strategic planning and performance.[7] In other words, it appears that organizations that use strategic management do have higher levels of performance. And that fact makes it pretty important for managers!

Another reason it's important has to do with the fact that managers in organizations of all types and sizes face continually changing situations (as we discussed in Chapter 6). They cope with this uncertainty by using the strategic management process to examine relevant factors and decide what actions to take. For instance, as business executives across a wide spectrum of industries coped with the global recession, they focused on making their strategies more flexible. At Office Depot, for example, store managers throughout the company told CEO Steve Odland that cash-strapped consumers no longer wanted to buy pens or printer paper in bulk. So the company created special displays promoting single Sharpie pens and introduced five-ream packages of paper, half the size of the normal big box of paper.[8]

Finally, strategic management is important because organizations are complex and diverse. Each part needs to work together toward achieving the organization's goals; strategic management helps do this. For example, with more than 2.1 million employees worldwide working in various departments, functional areas, and stores, Walmart Stores, Inc., uses strategic management to help coordinate and focus employees' efforts on what's important as determined by its goals.

Today, both business organizations and not-for-profit organizations use strategic management. For instance, the U.S. Postal Service (USPS) is locked in competitive battles with overnight package delivery companies, telecommunications companies' e-mail and text messaging services, and private mailing facilities. In 2006, 213 billion pieces of mail were handled by the postal service. In 2009, that total had dropped to 177 billion, a decline of almost 17 percent. John Potter, USPS's CEO (the U.S. Postmaster General), is using strategic management to come up with a response. One possible action plan, which many critics consider drastic, is discontinuing Saturday mail delivery. However, some strategic changes are needed as the USPS faces losses of $238 billion over the next decade.[9] Strategic management will continue to be important to its operation. Check out the organization's *Vision 2013,* which outlines its internal plan for the future.[10] Although strategic management in not-for-profits hasn't been as well researched as it has in for-profit organizations, we know it's important for these organizations as well.

Let's Get Real

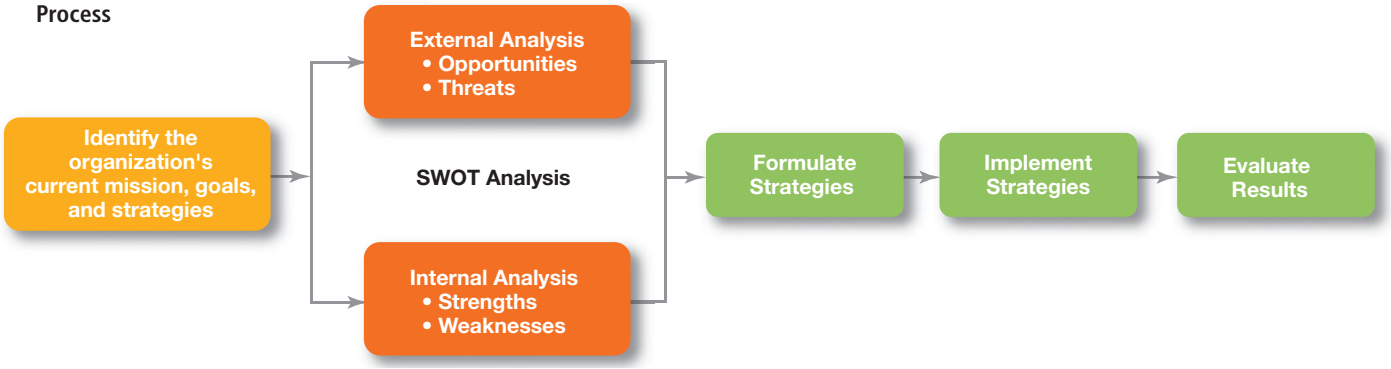
Managers need to know about strategic management because *it's the cornerstone for a company to move forward. You have to know where you'll be in 5, 10, 20 years—and anticipate change and be innovative.*

9.2 The Strategic Management Process

LEARNING OUTCOME
Explain what managers do during the six steps of the strategic management process.

The **strategic management process** (see Exhibit 9-1) is a six-step process that encompasses strategy planning, implementation, and evaluation. Although the first four steps describe the planning that must take place, implementation and evaluation are just as important! Even the best strategies can fail if management doesn't implement or evaluate them properly.

EXHIBIT 9-1
Strategic Management Process



Step 1: Identifying the Organization's Current Mission, Goals, and Strategies

Every organization needs a **mission**—a statement of its purpose. Defining the mission forces managers to identify what it's in business to do. For instance, the mission of Avon is "To be the company that best understands and satisfies the product, service, and self-fulfillment needs of women on a global level." The mission of Facebook is "a social utility that connects you with the people around you." The mission of the National Heart Foundation of Australia is to "reduce suffering and death from heart, stroke, and blood vessel disease in Australia." These statements provide clues to what these organizations see as their purpose. What should a mission statement include? Exhibit 9-2 describes some typical components.

Step 2: Doing an External Analysis

What impact might the following trends have for businesses?

- With the passage of the national health care legislation, every big restaurant chain will now be required to post calorie information on their menus and drive-through signs.
- Cell phones are now used by customers more for data transmittal and retrieval than for phone calls.
- The share of new high-school graduates enrolled in college hit a record high in 2009 and continues to climb.[11]

We described the external environment in Chapter 2 as an important constraint on a manager's actions. Analyzing that environment is a critical step in the strategic management process. Managers do an external analysis so they know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In an external analysis, managers should examine the economic, demographic, political/legal, sociocultural, technological, and global components to see the trends and changes.

Once they've analyzed the environment, managers need to pinpoint opportunities that the organization can exploit and threats that it must counteract or buffer against. **Opportunities** are positive trends in the external environment; **threats** are negative trends.

Customers: Who are the firm's customers?
Markets: Where does the firm compete geographically?
Concern for survival, growth, and profitability: Is the firm committed to growth and financial stability?
Philosophy: What are the firm's basic beliefs, values, and ethical priorities?
Concern for public image: How responsive is the firm to societal and environmental concerns?
Products or services: What are the firm's major products or services?
Technology: Is the firm technologically current?
Self-concept: What are the firm's major competitive advantage and core competencies?
Concern for employees: Are employees a valuable asset of the firm?

Source: Based on F. David, *Strategic Management,* 13th ed. (Upper Saddle River, NJ: Prentice Hall, 2011), p. 51.

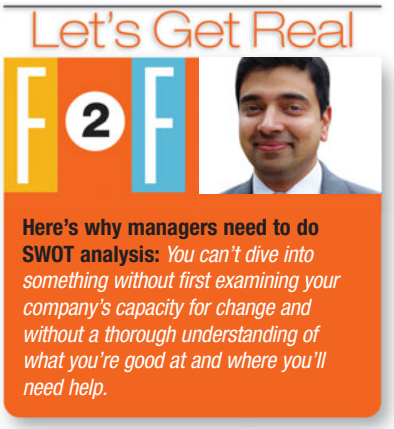
EXHIBIT 9-2
Components of a Mission Statement

strategic management process
A six-step process that encompasses strategic planning, implementation, and evaluation

mission
A statement of an organization's purpose

opportunities
Positive trends in the external environment

threats
Negative trends in the external environment



Here's why managers need to do SWOT analysis: *You can't dive into something without first examining your company's capacity for change and without a thorough understanding of what you're good at and where you'll need help.*

Step 3: Doing an Internal Analysis

Now we move to the internal analysis, which provides important information about an organization's specific resources and capabilities. An organization's **resources** are its assets—financial, physical, human, and intangible—that it uses to develop, manufacture, and deliver products to its customers. They're "what" the organization has. On the other hand, its **capabilities** are its skills and abilities in doing the work activities needed in its business—"how" it does its work. The major value-creating capabilities of the organization are known as its **core competencies**.[12] Both resources and core competencies determine the organization's competitive weapons.

After completing an internal analysis, managers should be able to identify organizational strengths and weaknesses. Any activities the organization does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities the organization doesn't do well or resources it needs but doesn't possess.

The combined external and internal analyses are called the **SWOT analysis**, which is an analysis of the organization's *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. After completing the SWOT analysis, managers are ready to formulate appropriate strategies—that is, strategies that (1) exploit an organization's strengths and external opportunities, (2) buffer or protect the organization from external threats, or (3) correct critical weaknesses.

Step 4: Formulating Strategies

As managers formulate strategies, they should consider the realities of the external environment and their available resources and capabilities in order to design strategies that will help an organization achieve its goals. The three main types of strategies managers will formulate include corporate, competitive, and functional. We'll describe each shortly.

Step 5: Implementing Strategies

Once strategies are formulated, they must be implemented. No matter how effectively an organization has planned its strategies, performance will suffer if the strategies aren't implemented properly.

Step 6: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have the strategies been at helping the organization reach its goals? What adjustments are necessary? After assessing the results of previous strategies and determining that changes were needed, Ursula Burns, Xerox's CEO, made strategic adjustments to regain market share and improve her company's bottom line. The company cut jobs, sold assets, and reorganized management. (See Leader Who Made a Difference box on p. 230.)

LEARNING OUTCOME 9.3
Describe the three types of corporate strategies.

Corporate Strategies

As we said earlier, organizations use three types of strategies: corporate, competitive, and functional. (See Exhibit 9-3.) Top-level managers typically are responsible for corporate strategies, middle-level managers for competitive strategies, and lower-level managers for the functional strategies. In this section, we'll look at corporate strategies.

What Is Corporate Strategy?

A **corporate strategy** is one that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses. It's based on the mission and goals of the organization and the roles that each business unit of the organization will play. We can see both of these aspects with PepsiCo, for instance. Its mission: To be the world's premier consumer products company focused on convenient foods and beverages. It pursues that mission with a

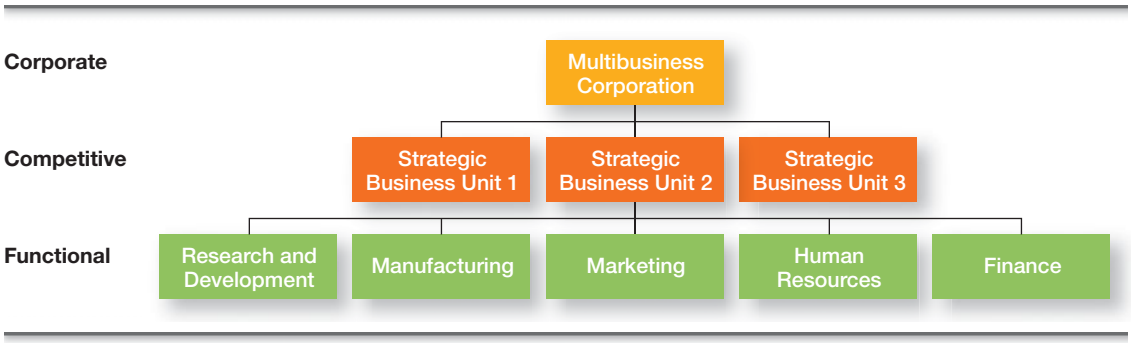


EXHIBIT 9-3
Types of Organizational Strategies

corporate strategy that has put it in different businesses including PepsiCo Americas Beverages (which includes Pepsi, Gatorade, and other beverages), PepsiCo Americas Foods (which includes Frito-Lay North America, Quaker Foods North America, and Latin American Foods), and PepsiCo International (which includes all PepsiCo's other international products). The other part of corporate strategy is when top managers decide what to do with those businesses: grow them, keep them the same, or renew them.

What Are the Types of Corporate Strategy?

The three main types of corporate strategies are growth, stability, and renewal. Let's look at each type.

GROWTH. Even though Walmart is the world's largest retailer, it continues to grow internationally and in the United States. A **growth strategy** is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es). Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using concentration, vertical integration, horizontal integration, or diversification.

An organization that grows using *concentration* focuses on its primary line of business and increases the number of products offered or markets served in this primary business. For instance, Beckman Coulter, Inc., a Fullerton, California-based organization with annual revenues over $3.2 billion, has used concentration to become one of the world's largest medical diagnostics and research equipment companies. Another example of a company using concentration is Bose Corporation of Framingham, Massachusetts, which focuses on developing innovative audio products and has become one of the world's leading manufacturers of speakers for home entertainment, automotive, and pro audio markets with sales of more than $2 billion.

A company also might choose to grow by *vertical integration*, either backward, forward, or both. In backward vertical integration, the organization becomes its own supplier so it can control its inputs. For instance, eBay owns an online payment business that helps it provide more secure transactions and control one of its most critical processes. In forward vertical integration, the organization becomes its own distributor and is able to control its outputs. For example, Apple has more than 287 retail stores worldwide to distribute its product.

In *horizontal integration*, a company grows by combining with competitors. For instance, French cosmetics giant L'Oreal acquired The Body Shop. Another example is Live Nation,

resources
An organization's assets that are used to develop, manufacture, and deliver products to its customers

capabilities
An organization's skills and abilities in doing the work activities needed in its business

core competencies
The organization's major value-creating capabilities that determine its competitive weapons

strengths
Any activities the organization does well or any unique resources that it has

weaknesses
Activities the organization does not do well or resources it needs but does not possess

SWOT analysis
An analysis of the organization's strengths, weaknesses, opportunities, and threats

corporate strategy
An organizational strategy that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses

growth strategy
A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es)

She's the first African American woman to lead a *Fortune* 500 company.[13] Ursula Burns, who joined Xerox as a summer engineering intern more than 30 years ago, has a reputation for being bold. As a mechanical engineer, she got noticed at Xerox because she wasn't afraid to speak up bluntly in a culture that's known more for being polite, courteous, and discreet than for being outspoken. But that bold approach is serving Burns well in a challenging environment. Just weeks after taking over as CEO, she announced the biggest deal in the firm's history—a $6.4 billion acquisition of Affiliated Computer Services, an outsourcing firm that most people had never heard of. Although the action was criticized, Burns recognized that Xerox needed dramatic action. Her challenge at Xerox is crafting strategies that will help it prosper and be an industry leader in a digital age where change is continual.

the largest concert promoter in the United States, which combined operations with competitor HOB Entertainment, the operator of the House of Blues Clubs. Horizontal integration has been used in a number of industries in the last few years—financial services, consumer products, airlines, department stores, and software, among others. The U.S. Federal Trade Commission usually scrutinizes these combinations closely to see if consumers might be harmed by decreased competition. Other countries may have similar restrictions. For instance, the European Commission, the "watchdog" for the European Union, conducted an in-depth investigation into Unilever's acquisition of the body and laundry care units of Sara Lee.

Finally, an organization can grow through *diversification*, either related or unrelated. Related diversification happens when a company combines with other companies in different, but related, industries. For example, American Standard Cos., based in Piscataway, New Jersey, is in a variety of businesses including bathroom fixtures, air conditioning and heating units, plumbing parts, and pneumatic brakes for trucks. Although this mix of businesses seems odd, the company's "strategic fit" is the efficiency-oriented manufacturing techniques developed in its primary business of bathroom fixtures, which it has transferred to all its other businesses. Unrelated diversification is when a company combines with firms in different and unrelated industries. For instance, the Tata Group of India has businesses in chemicals, communications and IT, consumer products, energy, engineering, materials, and services. Again, an odd mix. But in this case, there's no strategic fit among the businesses.

STABILITY. As the global recession dragged on and U.S. sales of candy and chocolate slowed down, Cadbury Schweppes—with almost half of its confectionary sales coming from chocolate—is maintaining things as they are. A **stability strategy** is a corporate strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization doesn't grow, but doesn't fall behind, either.

RENEWAL. In 2009, Symantec lost $6.7 billion. Sprint-Nextel lost $2.4 billion, and many financial services and real-estate-related companies faced serious financial issues with huge losses. When an organization is in trouble, something needs to be done. Managers need to develop strategies, called **renewal strategies**, that address declining performance. The two main types of renewal strategies are retrenchment and turnaround strategies. A *retrenchment strategy* is a short-run renewal strategy used for minor performance problems. This strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again. When an organization's problems are more serious, more drastic action—the *turnaround strategy*—is needed. Managers do two things for both renewal strategies: cut costs and restructure organizational operations. However, in a turnaround strategy, these measures are more extensive than in a retrenchment strategy.

How Are Corporate Strategies Managed?

When an organization's corporate strategy encompasses a number of businesses, managers can manage this collection, or portfolio, of businesses using a tool called a corporate portfolio matrix. This matrix provides a framework for understanding diverse businesses and helps managers establish priorities for allocating resources.[14] The first portfolio matrix—the **BCG matrix**—was developed by the Boston Consulting Group and introduced the idea that an organization's various businesses could be evaluated and plotted using a 2 × 2 matrix

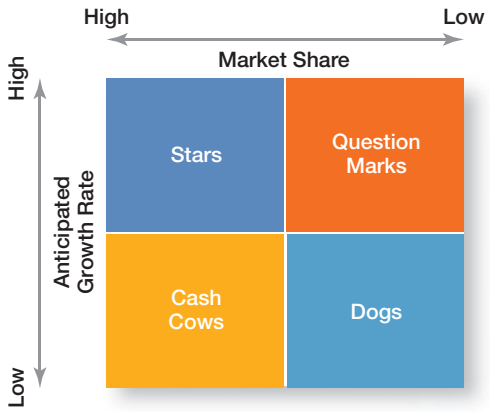


EXHIBIT 9-4
BCG Matrix

(see Exhibit 9-4) to identify which ones offered high potential and which were a drain on organizational resources.[15] The horizontal axis represents market share (low or high) and the vertical axis indicates anticipated market growth (low or high). A business unit is evaluated using a SWOT analysis and placed in one of the four categories.

What are the strategic implications of the BCG matrix? The dogs should be sold off or liquidated as they have low market share in markets with low growth potential. Managers should "milk" cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in stars and question marks with strong potential to improve market share. Heavy investment in stars will help take advantage of the market's growth and help maintain high market share. The stars, of course, will eventually develop into cash cows as their markets mature and sales growth slows. The hardest decision for managers relates to the question marks. After careful analysis, some will be sold off and others strategically nurtured into stars.

Competitive Strategies

9.4 LEARNING OUTCOME
Describe competitive advantage and the competitive strategies organizations use to get it.

A **competitive strategy** is a strategy for how an organization will compete in its business(es). For a small organization in only one line of business or a large organization that has not diversified into different products or markets, its competitive strategy describes how it will compete in its primary or main market. For organizations in multiple businesses, however, each business will have its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like. For example, the French company LVMH-Moët Hennessy Louis Vuitton SA has different competitive strategies for its businesses, which include Donna Karan fashions, Louis Vuitton leather goods, Guerlain perfume, TAG Heuer watches, Dom Perignon champagne, and other luxury products. When an organization is in several different businesses, those single businesses that are independent and that have their own competitive strategies are referred to as **strategic business units (SBUs)**.

The Role of Competitive Advantage

Michelin has mastered a complex technological process for making superior radial tires. Coca-Cola has created the world's best and most powerful brand using specialized marketing and

stability strategy
A corporate strategy in which an organization continues to do what it is currently doing

renewal strategy
A corporate strategy designed to address declining performance

BCG matrix
A strategy tool that guides resource allocation decisions on the basis of market share and growth rate of SBUs

competitive strategy
An organizational strategy for how an organization will compete in its business(es)

strategic business unit (SBU)
The single independent businesses of an organization that formulate their own competitive strategies

merchandising capabilities.[16] The Ritz Carlton hotels have a unique ability to deliver personalized customer service. Each of these companies has created a competitive advantage.

Developing an effective competitive strategy requires an understanding of **competitive advantage**, which is what sets an organization apart—that is, its distinctive edge.[17] That distinctive edge can come from the organization's core competencies by doing something that others cannot do or doing it better than others can do it. For example, Southwest Airlines has a competitive advantage because of its skills at giving passengers what they want—convenient and inexpensive air passenger service. Or competitive advantage can come from the company's resources because the organization has something that its competitors do not have. For instance, Walmart's state-of-the-art information system allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Walmart has turned into a cost advantage.

QUALITY AS A COMPETITIVE ADVANTAGE. When W. K. Kellogg started manufacturing his cornflake cereal in 1906, his goal was to provide his customers with a high-quality, nutritious product that was enjoyable to eat. That emphasis on quality is still important today. Every employee has a responsibility to maintain the high quality of Kellogg products. If implemented properly, quality can be a way for an organization to create a sustainable competitive advantage.[18] That's why many organizations apply quality management concepts in an attempt to set themselves apart from competitors. If a business is able to continuously improve the quality and reliability of its products, it may have a competitive advantage that can't be taken away.[19]

SUSTAINING COMPETITIVE ADVANTAGE. Every organization has resources (assets) and capabilities (how work gets done). So what makes some organizations more successful than others? Why do some professional baseball teams consistently win championships or draw large crowds? Why do some organizations have consistent and continuous growth in revenues and profits? Why do some colleges, universities, or departments experience continually increasing enrollments? Why do some companies consistently appear at the top of lists ranking the "best," or the "most admired," or the "most profitable"? The answer is that not every organization is able to effectively exploit its resources and to develop the core competencies that can provide it with a competitive advantage. And it's not enough simply to create a competitive advantage. The organization must be able to sustain that advantage; that is, to keep its edge despite competitors' actions or evolutionary changes in the industry. But that's not easy to do! Market instabilities, new technology, and other changes can challenge managers' attempts at creating a long-term, sustainable competitive advantage. However, by using strategic management, managers can better position their organizations to get a sustainable competitive advantage.

Many important ideas in strategic management have come from the work of Michael Porter.[20] One of his major contributions was explaining how managers can create a sustainable competitive advantage. An important part of doing this is an industry analysis, which is done using the five forces model.

Kellogg has developed a competitive advantage by creating and maintaining high-quality products for more than a century. Quality management at Kellogg includes making each employee responsible for maintaining quality and conducting quality control tests of the company's raw materials, processing, and packaging operations. Quality assurance personnel regularly visit suppliers' plants to assure that proper sanitation procedures are followed and that raw materials meet Kellogg's rigid specifications. A Quality Division at company headquarters establishes quality practices that are carried out by employees at the manufacturing facilities.

EXHIBIT 9-5
Five Forces Model

Source: Based on M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors.* New York: The Free Press, 1980.

FIVE FORCES MODEL. In any industry, five competitive forces dictate the rules of competition. Together, these five forces (see Exhibit 9-5) determine industry attractiveness and profitability, which managers assess using these five factors:

1. *Threat of new entrants.* How likely is it that new competitors will come into the industry?
2. *Threat of substitutes*. How likely is it that other industries' products can be substituted for our industry's products?
3. *Bargaining power of buyers.* How much bargaining power do buyers (customers) have?
4. *Bargaining power of suppliers.* How much bargaining power do suppliers have?
5. *Current rivalry.* How intense is the rivalry among current industry competitors?

Choosing a Competitive Strategy

Once managers have assessed the five forces and done a SWOT analysis, they're ready to select an appropriate competitive strategy—that is, one that fits the competitive strengths (resources and capabilities) of the organization and the industry it's in. According to Porter, no firm can be successful by trying to be all things to all people. He proposed that managers select a strategy that will give the organization a competitive advantage, either from having lower costs than all other industry competitors or by being significantly different from competitors.

When an organization competes on the basis of having the lowest costs (costs or expenses, not prices) in its industry, it's following a *cost leadership strategy*. A low-cost leader is highly efficient. Overhead is kept to a minimum, and the firm does everything it can to cut costs. You won't find expensive art or interior décor at offices of low-cost leaders. For example, at Walmart's headquarters in Bentonville, Arkansas, office furnishings are functional, not elaborate, maybe not what you'd expect for the world's largest retailer. Although a low-cost leader doesn't place a lot of emphasis on "frills," its product must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers.

competitive advantage
What sets an organization apart; its distinctive edge

by the numbers[21]

21 percent more profitable—what studies have shown about companies that are information-technology-savvy.

25 percent of allegedly high-performing companies are actually remarkable performers.

29 percent of respondents said that losing their job was their biggest concern during a corporate merger or acquisition.

46 percent of executives at smaller companies are likely to take a collaborative approach to developing strategy.

29 percent of executives at larger companies are likely to take a collaborative approach to developing strategy.

60 percent of executives believe that their employees are not prepared for future company growth.

A company that competes by offering unique products that are widely valued by customers is following a *differentiation strategy*. Product differences might come from exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. Practically any successful consumer product or service can be identified as an example of the differentiation strategy; for instance, Nordstrom (customer service); 3M Corporation (product quality and innovative design); Coach (design and brand image); and Apple (product design).

Although these two competitive strategies are aimed at the broad market, the final type of competitive strategy—the *focus strategy*—involves a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment or niche. Segments can be based on product variety, customer type, distribution channel, or geographical location. For example, Denmark's Bang & Olufsen, whose revenues are over $527 million, focuses on high-end audio equipment sales. Whether a focus strategy is feasible depends on the size of the segment and whether the organization can make money serving that segment.

What happens if an organization can't develop a cost or a differentiation advantage? Porter called that being *stuck in the middle* and warned that's not a good place to be. An organization becomes stuck in the middle when its costs are too high to compete with the low-cost leader or when its products and services aren't differentiated enough to compete with the differentiator. Getting unstuck means choosing which competitive advantage to pursue and then doing so by aligning resource, capabilities, and core competencies.

Although Porter said that you had to pursue either the low cost or the differentiation advantage to prevent being stuck in the middle, more recent research has shown that organizations *can* successfully pursue both a low cost and a differentiation advantage and achieve high performance.[22] Needless to say, it's not easy to pull off! You have to keep costs low *and* be truly differentiated. But companies such as Hewlett-Packard, FedEx, Intel, and Coca-Cola have been able to do it.

Before we leave this section, we want to point out the final type of organizational strategy, the **functional strategies**, which are the strategies used by an organization's various functional departments to support the competitive strategy. For example, when R. R. Donnelley & Sons Company, a Chicago-based printer, wanted to become more competitive and invested in high-tech digital printing methods, its marketing department had to develop new sales plans and promotional pieces, the production department had to incorporate the digital equipment in the printing plants, and the human resources department had to update its employee selection and training programs. We don't cover specific functional strategies in this book because you'll cover them in other business courses you take.

LEARNING OUTCOME 9.5
Discuss current strategic management issues.

Current Strategic Management Issues

There's no better example of the strategic challenges faced by managers in today's environment than the recorded music industry. Overall sales of CDs have plummeted in the last decade and are down about 50 percent from their peak. Not only has this trend impacted the music companies, but it's affected music retailers as well. "Retailers have been forced to adjust, often by devoting some shelf space to other products." For instance, Best Buy, the national electronics retailer, decided to experiment with selling musical instruments. During spring 2010, the company opened its 100th musical instrument department. Other major music retailers, such as Walmart, have shifted selling space used for CDs to other departments. "At music specialty stores, however, diversification has become a matter of survival." Managers are struggling to find strategies that will help their organizations succeed in such an environment. Many have had to shift into whole new areas of business.[23] But it isn't just the music industry that's dealing with strategic challenges. Managers everywhere face increasingly intense global competition and high performance expectations by investors and customers. How have they responded to these new realities? In this section we look at three current strategic management issues including the need for strategic leadership, the need for strategic flexibility, and how managers design strategies to emphasize e-business, customer service, and innovation.

Let's Get Real

F2F

Skills needed by a good strategic leader include:

- Ability to listen
- Determination
- Flexibility
- Able to affect change and buy-in from employees
- Patience
- Planning

The Need for Strategic Leadership

Pablo Isa, CEO of Spain's Inditex (owner of clothing chain Zara), is overseeing an aggressive expansion. The company is adding as many as 450 stores a year, including a three-level store on Chicago's Michigan Avenue. With so much prime retail space available in the United States, Isa is exploiting the opportunity to negotiate better deals.[24]

An organization's strategies are usually developed and overseen by its top managers. An organization's top manager is typically the CEO (chief executive officer). This individual usually works with a top management team that includes other executive or senior managers such as a COO (chief operating officer), CFO (chief financial officer), CIO (chief information officer), and other individuals who may have various titles. Traditional descriptions of the CEO's role in strategic management include being the "chief" strategist, structural architect, and developer of the organization's information/control systems.[25] Other descriptions of the strategic role of the "chief executive" include key decision maker, visionary leader, political actor, monitor and interpreter of environment changes, and strategy designer.[26]

No matter how top management's job is described, you can be certain that from their perspective at the organization's upper levels, it's like no other job in the organization. By definition, top managers are ultimately responsible for every decision and action of every organizational employee. One important role that top managers play is that of strategic leader. Organizational researchers study leadership in relation to strategic management because an organization's top managers must provide effective strategic leadership. What is **strategic leadership**? It's the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization.[27] How can top managers provide effective strategic leadership? Eight key dimensions have been identified.[28] (See Exhibit 9-6.) These dimensions include determining the organization's purpose or vision, exploiting and maintaining the organization's core

EXHIBIT 9-6
Effective Strategic Leadership

Sources: Based on J. P. Wallman, "Strategic Transactions and Managing the Future: A Druckerian Perspective," *Management Decision,* vol. 48, no. 4, 2010, pp. 485–499; D. E. Zand, "Drucker's Strategic Thinking Process: Three Key Techniques," *Strategy & Leadership,* vol. 38, no. 3, 2010, pp. 23–28; and R. D. Ireland and M. A. Hitt, "Achieving and Maintaining Strategic Competitiveness in the 21st Century: The Role of Strategic Leadership," *Academy of Management Executive*, February 1999, pp. 43–57.

functional strategy
The strategies used by an organization's various functional departments to support the competitive strategy

strategic leadership
The ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization

competencies, developing the organization's human capital, creating and sustaining a strong organizational culture, creating and maintaining organizational relationships, reframing prevailing views by asking penetrating questions and questioning assumptions, emphasizing ethical organizational decisions and practices, and establishing appropriately balanced organizational controls. Each dimension encompasses an important part of the strategic management process.

The Need for Strategic Flexibility

Not surprisingly, the economic recession changed the way that many companies approached strategic planning.[29] For instance, at Spartan Motors, a maker of specialty vehicles, managers used to draft a one-year strategic plan and a three-year financial plan, reviewing each one every financial quarter. However, CEO John Sztykiel said, "that relatively inflexible method bears some of the blame for Spartan's sharp drop in sales and gross profit." He also said that the company didn't "respond quickly enough to shifting demand." Now, the company uses a three-year strategic plan that the top management team updates every month. And at J.C. Penney Company, an ambitious five-year strategic growth plan rolled out in 2007 had to be put on hold as the economy floundered.[30] In its place, CEO Mike Ullman III crafted a tentative "bridge" plan to guide the company. This plan worked as the company improved its profit margins and did not have to lay off any employees.

Jürgen Schrempp, former CEO of Daimler AG, stated, "My principle always was . . . move as fast as you can and [if] you indeed make mistakes, you have to correct them. . . . It's much better to move fast, and make mistakes occasionally, than move too slowly."[31] You wouldn't think that smart individuals who are paid lots of money to manage organizations would make mistakes when it comes to strategic decisions. But even when managers use the strategic management process, there's no guarantee that the chosen strategies will lead to positive outcomes. Reading any of the current business periodicals would certainly support this assertion! But the key is responding quickly when it's obvious that the strategy isn't working. In other words, they need **strategic flexibility**—that is, the ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision isn't working. Given the highly uncertain environment that managers face today, strategic flexibility seems absolutely necessary! Exhibit 9-7 provides suggestions for developing such strategic flexibility.

Important Organizational Strategies for Today's Environment

ESPN.com gets more than 16 million unique users a month. 16 million! That's almost twice the population of New York City. And its popular online business is just one of many businesses that ESPN is in. Originally founded as a television channel, ESPN is now into original programming,

EXHIBIT 9-7
Developing Strategic Flexibility

- *Encourage leadership unity* by making sure everyone is on the same page.
- *Keep resources fluid* and move them as circumstances warrant.
- *Have the right mindset* to explore and understand issues and challenges.
- Know what's happening with strategies currently being used by *monitoring and measuring results*.
- Encourage employees to *be open about disclosing and sharing negative information*.
- *Get new ideas and perspectives from outside* the organization.
- Have *multiple alternatives* when making strategic decisions.
- *Learn from mistakes*.

Sources: Based on Y. L. Doz and M. Kosonen, "Embedding Strategic Agility: A Leadership Agenda for Accelerating Business Model Renewal," *Long Range Planning,* April 2010, pp. 370–382; E. Lewis, D. Romanaggi, and A. Chapple, "Successfully Managing Change During Uncertain Times," *Strategic HR Review,* vol. 9, no. 2, 2010, pp. 12–18; and K. Shimizu and M. Hitt, "Strategic Flexibility: Organizational Preparedness to Reverse Ineffective Strategic Decisions," *Academy of Management Executive,* November 2004, pp. 44–59.

radio, online, publishing, gaming, X games, ESPY awards, ESPN Zones, global, and is looking to move into more local sports coverage.[32] Company president George Bodenheimer "runs one of the most successful and envied franchises in entertainment," and obviously understands how to successfully manage its various strategies in today's environment! We think three strategies are important in today's environment: e-business, customer service, and innovation.

e-BUSINESS STRATEGIES. Managers use e-business strategies to develop a sustainable competitive advantage.[33] A cost leader can use e-business to lower costs in a variety of ways. For instance, it might use online bidding and order processing to eliminate the need for sales calls and to decrease sales force expenses; it could use Web-based inventory control systems that reduce storage costs; or it might use online testing and evaluation of job applicants.

A differentiator needs to offer products or services that customers perceive and value as unique. For instance, a business might use Internet-based knowledge systems to shorten customer response times, provide rapid online responses to service requests, or automate purchasing and payment systems so that customers have detailed status reports and purchasing histories.

Finally, because the focuser targets a narrow market segment with customized products, it might provide chat rooms or discussion boards for customers to interact with others who have common interests, design niche Web sites that target specific groups with specific interests, or use Web sites to perform standardized office functions such as payroll or budgeting.

Research also has shown that an important e-business strategy might be a clicks-and-bricks strategy. A clicks-and-bricks firm is one that uses both online (clicks) and traditional stand-alone locations (bricks).[34] For example, Walgreen's established an online site for ordering prescriptions, but some 90 percent of its customers who placed orders on the Web preferred to pick up their prescriptions at a nearby store rather than have them shipped to their home. So its "clicks-and-bricks" strategy has worked well!

CUSTOMER SERVICE STRATEGIES. Companies emphasizing excellent customer service need strategies that cultivate that atmosphere from top to bottom. Such strategies involve giving customers what they want, communicating effectively with them, and providing employees with customer service training. Let's look first at the strategy of giving customers what they want.

It shouldn't surprise you that an important customer service strategy is giving customers what they want, which is a major aspect of an organization's overall marketing strategy. For

Trader Joe's customer service strategy centers on giving customers what they want and having an effective customer communication system. The specialty grocery uses face-to-face conversations, listening to customers and getting their feedback. Spending most of their day on the retail floor, store managers are available to interact with customers, and the company gives them authority to set up their store to meet local needs. Trader Joe's lets employees open products shoppers want to taste and encourages them to recommend products they like and to be honest about products they don't like. At Trader Joe's, a permanent store section that offers free samples also gives employees another chance to listen and respond to what customers want.

strategic flexibility
The ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision was a mistake

instance, New Balance Athletic Shoes gives customers a truly unique product: shoes in varying widths. No other athletic shoe manufacturer has shoes for narrow or wide feet and in practically any size.[35]

Having an effective customer communication system is an important customer service strategy. Managers should know what's going on with customers. They need to find out what customers liked and didn't like about their purchase encounter—from their interactions with employees to their experience with the actual product or service. It's also important to let customers know what's going on with the company that might affect future purchase decisions. For instance, Retailer Hot Topic is fanatical about customer feedback, which it gets in the form of shopper "report cards." The company's CEO, Betsy McLaughlin, pores over more than 1,000 of them each week.[36]

Finally, an organization's culture is important to providing excellent customer service. This typically requires that employees be trained to provide exceptional customer service. For example, Singapore Airlines is well-known for its customer treatment. "On everything facing the customer, they do not scrimp," says an analyst based in Singapore.[37] Employees are expected to "get service right," leaving employees with no doubt about the expectations as far as how to treat customers.

INNOVATION STRATEGIES. When Procter & Gamble purchased the Iams pet-food business, it did what it always does—used its renowned research division to look for ways to transfer technology from its other divisions to make new products.[38] One outcome of this cross-divisional combination: a new tartar-fighting ingredient from toothpaste that's included in all of its dry adult pet foods.

As this example shows, innovation strategies aren't necessarily focused on just the radical, breakthrough products. They can include applying existing technology to new uses. And organizations have successfully used both approaches. What types of innovation strategies do organizations need in today's environment? Those strategies should reflect their innovation philosophy, which is shaped by two strategic decisions: innovation emphasis and innovation timing.

Managers must first decide where the emphasis of their innovation efforts will be. Is the organization going to focus on basic scientific research, product development, or process improvement? Basic scientific research requires the most resource commitment because it involves the nuts-and-bolts work of scientific research. In numerous industries (for instance, genetics engineering, pharmaceuticals, information technology, or cosmetics), an organization's expertise in basic research is the key to a sustainable competitive advantage. However, not every organization requires this extensive commitment to scientific research to achieve high performance levels. Instead, many depend on product development strategies. Although this strategy also requires a significant resource investment, it's not in areas associated with scientific research. Instead, the organization takes existing technology and improves on it or applies it in new ways, just as Procter & Gamble did when it applied tartar-fighting knowledge to pet food products. Both of these first two strategic approaches to innovation (basic scientific research and product development) can help an organization achieve high levels of differentiation, which can be a significant source of competitive advantage.

Finally, the last strategic approach to innovation emphasis is a focus on process development. Using this strategy, an organization looks for ways to improve and enhance its work processes. The organization innovates new and improved ways for employees to do their work in all organizational areas. This innovation strategy can lead to lower costs, which, as we know, also can be a significant source of competitive advantage.

Once managers have determined the focus of their innovation efforts, they must decide their innovation timing strategy. Some organizations want to be the first with innovations whereas others are content to follow or mimic the innovations. An organization that's first to bring a product innovation to the market or to use a new process innovation is called a **first mover**. Being a

first mover
An organization that's first to bring a product innovation to the market or to use a new process innovation

Advantages	Disadvantages
• Reputation for being innovative and industry leader • Cost and learning benefits • Control over scarce resources and keeping competitors from having access to them • Opportunity to begin building customer relationships and customer loyalty	• Uncertainty over exact direction technology and market will go • Risk of competitors imitating innovations • Financial and strategic risks • High development costs

EXHIBIT 9-8
First-Mover Advantages and Disadvantages

first mover has certain strategic advantages and disadvantages as shown in Exhibit 9-8. Some organizations pursue this route, hoping to develop a sustainable competitive advantage. Others have successfully developed a sustainable competitive advantage by being the followers in the industry. They let the first movers pioneer the innovations and then mimic their products or processes. Which approach managers choose depends on their organization's innovation philosophy and specific resources and capabilities.

Let's Get Real:

My Response *to A Manager's Dilemma, page 224*

We need to get our strategic leaders together to analyze our SWOT to see how we can leverage ourselves in this marketplace. Since we don't have experience with iPhones, we need to gain expertise in that area—the technical area, perhaps tapping into our current global technological network. Action steps include:

- Forming a focus group of our core users to see how they would use the iPhone (if at all)
  - Do our current customers (teens) use iPhones and how can we retain their loyalty in the future?
- Examining how other companies are bringing games/applications to the iPhone
- Testing games with heavy iPhone users to see what appeals to them
  - Are iPhone users looking for convenience and are they in the working environment?

What Would You Do?

Sid Gokhale
President
Dowden Custom Media
Montvale, NJ

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 9.1

Explain strategic management and explain why it's important.

Strategic management is what managers do to develop the organization's strategies. Strategies are the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals. A business model is how a company is going to make money. Strategic management is important for three reasons. First, it makes a difference in how well organizations perform. Second, it's important for helping managers cope with continually changing situations. Finally, strategic management helps coordinate and focus employee efforts on what's important.

LEARNING OUTCOME 9.2

Explain what managers do during the six steps of the strategic management process.

The six steps in the strategic management process encompass strategy planning, implementation, and evaluation. These steps include the following: (1) identify the current mission, goals, and strategies; (2) do an external analysis; (3) do an internal analysis (steps 2 and 3 collectively are known as SWOT analysis); (4) formulate strategies; (5) implement strategies; and (6) evaluate strategies. Strengths are any activities the organization does well or unique resources that it has. Weaknesses are activities the organization doesn't do well or resources it needs but doesn't have. Opportunities are positive trends in the external environment. Threats are negative trends.

LEARNING OUTCOME 9.3

Describe the three types of corporate strategies.

A growth strategy is when an organization expands the number of markets served or products offered, either through current or new businesses. The types of growth strategies include concentration, vertical integration (backward and forward), horizontal integration, and diversification (related and unrelated). A stability strategy is when an organization makes no significant changes in what it's doing. Both renewal strategies—retrenchment and turnaround—address organizational weaknesses that are leading to performance declines. The BCG matrix is a way to analyze a company's portfolio of businesses by looking at a business's market share and its industry's anticipated growth rate. The four categories of the BCG matrix are cash cows, stars, question marks, and dogs.

LEARNING OUTCOME 9.4

Describe competitive advantage and the competitive strategies organizations use to get it.

An organization's competitive advantage is what sets it apart, its distinctive edge. A company's competitive advantage becomes the basis for choosing an appropriate competitive strategy. Porter's five forces model assesses the five competitive forces that dictate the rules of competition in an industry: threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and current rivalry. Porter's three competitive strategies are as follows: cost leadership (competing on the basis of having the lowest costs in the industry), differentiation (competing on the basis of having unique products that are widely valued by customers), and focus (competing in a narrow segment with either a cost advantage or a differentiation advantage).

Discuss current strategic management issues.

LEARNING OUTCOME 9.5

Managers face three current strategic management issues: strategic leadership, strategic flexibility, and important types of strategies for today's environment. Strategic leadership is the ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization and includes eight key dimensions. Strategic flexibility—that is, the ability to recognize major external environmental changes, to quickly commit resources, and to recognize when a strategic decision isn't working—is important because managers often face highly uncertain environments. Managers can use e-business strategies to reduce costs, to differentiate their firm's products and services, to target (focus on) specific customer groups, or to lower costs by standardizing certain office functions. Another important e-business strategy is the clicks-and-bricks strategy, which combines online and traditional stand-alone locations. Strategies managers can use to become more customer oriented include giving customers what they want, communicating effectively with them, and having a culture that emphasizes customer service. Strategies managers can use to become more innovative include deciding their organization's innovation emphasis (basic scientific research, product development, or process development) and its innovation timing (first mover or follower).

mymanagementlab

To check your understanding of learning outcomes 9.1 – 9.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Explain why strategic management is important.
2. Describe the six steps in the strategic management process.
3. How could the Internet be helpful to managers as they follow the steps in the strategic management process?
4. How might the process of strategy formulation, implementation, and evaluation differ for (a) large businesses, (b) small businesses, (c) not-for-profit organizations, and (d) global businesses?
5. Should ethical considerations be included in analyses of an organization's internal and external environments? Why or why not?
6. Describe the three major types of corporate strategies and how the BCG matrix is used to manage those corporate strategies.
7. Describe the role of competitive advantage and how Porter's competitive strategies help an organization develop competitive advantage.
8. "The concept of competitive advantage is as important for not-for-profit organizations as it is for for-profit organizations." Do you agree or disagree with this statement? Explain, using examples to make your case.
9. Explain why strategic leadership and strategic flexibility are important.
10. Describe e-business, customer service, and innovation strategies.

PREPARING FOR: My Career

ETHICS DILEMMA

"Nearly two weeks after the largest killer whale in captivity killed one of its trainers, SeaWorld Parks and Entertainment is still wrestling with the dilemma of what to do with its most prized asset." Orcas are big business. As the headline acts at SeaWorld parks in Orlando, San Diego, and San Antonio, they draw a combined 12.2 million visitors annually. And the animals represent a huge investment. "A killer whale can bring almost $10 million on the open market, and years of preparation are necessary for an orca to perform in a show."[39] What do you think? What ethical dilemmas are involved with this strategic decision about a valuable organizational asset? What factors would influence the decision? (Think in terms of the various stakeholders who might be affected by this decision.)

SKILLS EXERCISE

Developing Your Business Planning Skill

About the Skill

An important step in starting a business or in determining a new strategic direction is preparing a business plan.[40] Not only does the business plan aid in thinking about what to do and how to do it but it can be a sound basis from which to obtain funding and resources.

Steps in Practicing the Skill

1. **Describe your company's background and purpose.** Provide the history of the company. Briefly describe the company's history and what this company does that's unique. Describe what your product or service will be, how you intend to market it, and what you need to bring your product or service to the market.
2. **Identify your short- and long-term goals.** What is your intended goal for this organization? Clearly, for a new company three broad objectives are relevant: creation, survival, and profitability. Specific objectives can include such things as sales, market share, product quality, employee morale, and social responsibility. Identify how you plan to achieve each objective, how you intend to determine whether you met the objective, and when you intend the objective to be met (e.g., short or long term).
3. **Do a thorough market analysis.** You need to convince readers that you understand what you are doing, what your market is, and what competitive pressures you'll face. In this analysis, you'll need to describe the overall market trends, the specific market you intend to compete in, and who the competitors are. In essence, in this section you'll perform your SWOT analysis.
4. **Describe your development and production emphasis.** Explain how you're going to produce your product or service. Include time frames from start to finish. Describe the difficulties you may encounter in this stage as well as how much you believe activities in this stage will cost. Provide an explanation of what decisions (e.g., make or buy?) you will face and what you intend to do.
5. **Describe how you'll market your product or service.** What is your selling strategy? How do you intend to reach your customers? In this section, you'll want to describe your product or service in terms of your competitive advantage and demonstrate how you'll exploit your competitors' weaknesses. In addition to the market analysis, you'll also want to provide sales forecasts in terms of the size of the market, how much of the market you can realistically capture, and how you'll price your product or service.
6. **Put together your financial statements.** What's your bottom line? Investors want to know this information. In the financial section, you'll need to provide projected profit-and-loss statements (income statements) for approximately three to five years. You'll also need to include a cash flow analysis as well as the company's projected balance sheets. In the financial section, you should also give thought to how much start-up costs will be as well as to developing a financial strategy—how you intend to use funds received from a financial institution and how you'll control and monitor the financial well-being of the company.
7. **Provide an overview of the organization and its management.** Identify the key executives, summarizing their education, experience, and any relevant qualifications. Identify their positions in the organization and their job roles. Explain how much salary they intend to earn initially. Identify others who may assist the organization's management (e.g., company lawyer, accountant, board of directors). This section should also include, if relevant, a section on how you intend to deal with employees. For example, how will employees be paid, what benefits will be offered, and how will employee performance be assessed?

8. **Describe the legal form of the business.** Identify the legal form of the business. For example, is it a sole proprietor, a partnership, a corporation? Depending on the legal form, you may need to provide information regarding equity positions, shares of stock issued, and the like.
9. **Identify the critical risks and contingencies facing the organization.** In this section you'll want to identify what you'll do if problems arise. For instance, if you don't meet sales forecasts, what then? Similar responses to such questions as problems with suppliers, inability to hire qualified employees, poor-quality products, and so on should be addressed. Readers want to see if you've anticipated potential problems and if you have contingency plans. This is the what-if section.
10. **Put the business plan together.** Using the information you've gathered from the previous nine steps, it's now time to put the business plan together into a well-organized document. A business plan should contain a cover page that shows the company name, address, contact person, and numbers at which the individual can be reached. The cover page should also contain the date the business was established and, if one exists, the company logo. The next page of the business plan should be a table of contents. Here you'll want to list and identify the location of each major section and subsection in the business plan. Remember to use proper outlining techniques. Next comes the executive summary, the first section the readers will actually read. Thus, it's one of the more critical elements of the business plan, because if the executive summary is poorly done, readers may not read any further. In a two- to three-page summary, highlight information about the company, its management, its market and competition, the funds requested, how the funds will be used, financial history (if available), financial projections, and when investors can expect to get their money back (called the exit). Next come the main sections of your business plan; that is, the material you've researched and written about in steps 1 through 9. Close out the business plan with a section that summarizes the highlights of what you've just presented. Finally, if you have charts, exhibits, photographs, tables, and the like, you might want to include an appendix in the back of the business plan. If you do, remember to cross-reference this material to the relevant section of the report.

Practicing the Skill

You have a great idea for a business and need to create a business plan to present to a bank. Choose one of the following products or services and draft the part of your plan that describes how you will price and market it (see step 5).

1. Haircuts at home (you make house calls)
2. Olympic snowboarding computer game
3. Online apartment rental listing
4. Voice-activated house alarm

Now choose a different product or service from the list and identify critical risks and contingencies (see step 9).

WORKING TOGETHER

Team Exercise

Organizational mission statements. Are they a promise, a commitment, or just a bunch of hot air? Form small groups of three to four individuals and find examples of three different organizational mission statements. Your first task is to evaluate the mission statements. How do they compare to the items listed in Exhibit 9-2? Would you describe each as an effective mission statement? Why or why not? How might you rewrite each mission statement to make it better? Your second task is to use the mission statements to describe the types of corporate and competitive strategies each organization might use to fulfill that mission statement. Explain your rationale for choosing each strategy.

MY TURN TO BE A MANAGER

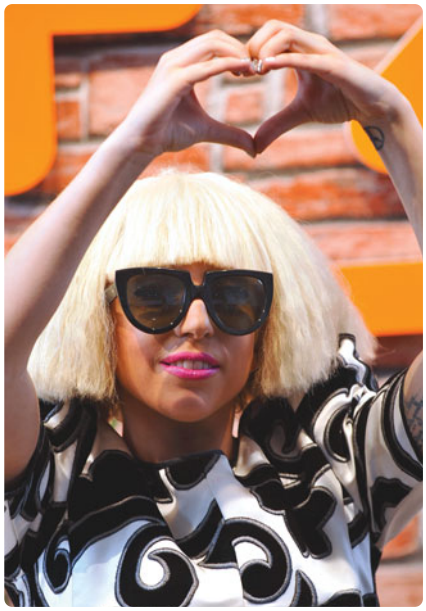
- Do a personal SWOT analysis. Assess your personal strengths and weaknesses (skills, talents, abilities). What are you good at? What are you not so good at? What do you enjoy doing? What don't you enjoy doing? Then, identify career opportunities and threats by researching job prospects in the industry you're interested in. Look at trends and projections. You might want to check out the Bureau of Labor Statistics information on job prospects. Once you have all this information, write a specific career action plan. Outline five-year career goals and what you need to do to achieve those goals.
- Using current business periodicals, find two examples of each of the corporate and competitive strategies. Write a description of what these businesses are doing and how it represents that particular strategy.
- Pick five companies from the latest version of *Fortune*'s "Most Admired Companies" list. Research these companies and identify their (a) mission statement, (b) strategic goals, and (c) strategies being used.
- Steve's and Mary's suggested readings: Adrian Slywotzky and Richard Wise, *How to Grow When Markets*

Don't (Warner Business Books, 2003); Jim Collins, *Good to Great: Why Some Companies Make the Leap. . . and Others Don't* (Harper Business, 2001); Michael E. Porter, *On Competition* (Harvard Business School Press, 1998); James C. Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (Harper Business, 1994); and Gary Hamel and C. K. Prahalad, *Competing for the Future* (Harvard Business School Press, 1994).

- Customer service, e-business, and innovation strategies are particularly important to managers today. We described in the chapter specific ways that companies can pursue these strategies. Your task is to pick customer service, e-business, or innovation and find one example for each of the specific approaches in that category. For instance, if you choose customer service, find an example of (a) giving customers what they want, (b) communicating effectively with them, and (c) providing employees with customer service training. Write a report describing your examples.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Well Do I Handle Ambiguity? How Creative Am I? How Well Do I Respond to Turbulent Change? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Gaga Over Gaga



Lady Gaga and her team of creative advisors crafted a strategy consisting of a unique persona, a 360-degree deal, and the use of digital media to achieve phenomenal success in the music industry and extreme loyalty from millions of Little Monsters to her brand that spans music, video, design, and marketing.

Just now in her mid-twenties, Lady Gaga has taken the music world by storm with a unique blend of business savvy, interesting hair and wardrobe choices, and a fabulous sound with a "spacey Euro vibe."[41] Five years ago, Lady Gaga did not exist. But the individual who is Lady Gaga, Stefani Germanotta, was waitressing and singing in drab and dingy New York clubs. She was ambitious and had bigger goals. After being signed and dropped from one label, Def Jam (turns out that may not have been the best decision by them), she joined forces with a hand-picked core team of creative advisers she called "Haus of Gaga." Behind all that glitz, glamour, and unusual fashion choices is a "case study of what it takes to succeed in the music business today."

Gaga's impact on the music world in the span of a year has been nothing short of phenomenal. Writing her own material, she's sold more than 10 million albums. Her debut album generated four No.1 songs. She also topped the digital sales chart in 2009 with 15.3 million tracks sold, most on iTunes. She's had more than 1 billion Web views. Some 3.8 million "Little Monsters"—Gaga's nickname for her fans—follow her on Twitter and she has over 6.4 million "fans" on Facebook. She was the most-Googled image in 2009. And then in recognition of the fact that she's been deemed worthy of the success she's had, she opened the Grammy's award show in early 2010 with music legend Sir Elton John. She "reigns over a brand that spans music, video, design, and marketing." One advertising executive said, "No other artist commands the kind of attention that Gaga does. If she does something with your brand, it's like *bam!*—a million eyeballs." For instance, together with MAC Cosmetics, she created a shade of Viva Glam lipstick that has raised $2.2 million for AIDS awareness—Viva Glam's most successful launch ever. What strategies has she used to navigate the turbulent industry and become a star?

One important component to her success is her savvy awareness of the power of digital media and her exceptional ability to exploit it. "Her persona is built for the online generation." Even though much of Gaga's audience has got her music online legally for free, "being embedded on the Web can pay dividends in exposure and the loyalty of fans." Gaga keeps her Little Monsters engaged with personal musings and real-time thank-yous.

Another important aspect to Gaga's success is what's called in the music business the 360-degree deal. The major upheaval in the music industry over the last decade led major record companies to look for ways to replace declining revenues. In a 360-degree deal, a label invests more money upfront—on marketing, for example—but in return, gets a piece of merchandise sales, touring revenue, and other earnings artists usually kept for themselves. This arrangement has been wildly successful for Gaga.

Finally, Gaga's persona has been a calculated strategy. "Gaga's allure is that of a misfit run amok in the system, a role that has helped her cut across disparate subcultures, including teens, finicky hipsters and gays." Her look isn't considered shocking like it was say, for instance, when rockers Alice Cooper or Gene Simmons first appeared. It's unique and keeps her audiences eager to see what her next image might be.

Gaga is determined to not be a niche artist. However, her "now-trendy sound won't last forever." Her ability to remain a music industry mainstay will depend on her ability to evolve.

Discussion Questions

1. How is strategic management illustrated by this case story?
2. How might SWOT analysis be helpful to Lady Gaga as she and her advisors manage her career?
3. What competitive advantage do you think Lady Gaga is pursuing? How is she exploiting that competitive advantage?
4. Do you think Lady Gaga's success is due to external or internal factors or both? Explain.
5. What strategic implications does the suggestion that her ability to remain a music industry mainstay depends on her ability to evolve have?

CASE APPLICATION 2

Faded Signal

As the world's biggest maker of mobile phones, Nokia, the Finnish company, is a "powerhouse in Europe, Asia, and Latin America, with market shares regularly topping 30 percent."[42] However, in the United States, Nokia phones have lost popularity over the last few years. In March 2002, Nokia led the American market with 35 percent market share. By June of 2009, its share was only 7 percent. What happened and more importantly, what is Nokia doing about it?

As mobile phone usage skyrocketed, Nokia was the most popular choice. It was the "cool" phone—the one that everyone, from business executive to high school student to stay-at-home-mom wanted. In 2005, Nokia had just launched the N series, an innovative new line with a Web browser, video, music, and pictures in a single phone. That device moved Nokia a generation ahead in the race to build the first real smart phone. The "forecast for Nokia was as sunny and clear as an endless Finnish summer day." Then came Apple and its iPhone with its clever touch screen and sophisticated software and services. With rave reviews and a reputation for being cool, customers flocked to buy one. However, Nokia executives dismissed the iPhone, saying they were "unimpressed by its engineering."

Now, three years after Apple introduced the iPhone in 2007, Nokia still has no alternative. It did not anticipate changes in American consumer tastes, like flip phones or touch screens. Another major strategic blunder

was that its models were based on a European communications standard called GSM when roughly half the United States market used the CDMA (code division multiple access) format. One former Nokia executive said, "Nokia, at the height of its success, decided not to adapt its phones for the U.S. market. That was a mistake and they're still trying to recover from this." An executive at a North American network operator said, "The attitude at Nokia was basically: Here is a phone. Do you want it? Nokia wouldn't play by the rules here, and they have paid a price." That arrogant attitude and the global economic slowdown have continued to hurt the company's sales and earnings.

Meanwhile, Nokia set up liaison offices in Atlanta, Dallas, Seattle, and Parsippany, New Jersey, cities where the top American operators have big business units. And it has recently revamped its U.S. operations to collaborate more closely with those major operators. For example, AT&T has begun billing its customers who use Nokia services, keeping those customers from receiving a second bill from Nokia. Best Buy began carrying a Nokia netbook, which is a model for its new collaborative strategy. Nokia also forged a deal with Qualcomm, the largest maker of mobile phone chips for CDMA devices in the United States. It also struck a deal with Microsoft to design Windows Office Mobile software applications for phones that use Nokia's Symbian operating system. Despite these efforts, however, some industry executives remain unimpressed. One analyst said, "They claim they get it and understand the U.S. market. But the execution still is not there." Mark Louison, president of Nokia's North American unit, who has a seat on Nokia's global management board, said, "In the past, we had a one-size-fits-all mentality that worked well on a global basis but did not help us in this market. That has changed now." The company recognized that its former strategy had not worked in North America and began trying to lay the groundwork for long-term success. Louison says, "Everything you see us doing is to build the broad set of capabilities to take us broader and deeper into the U.S. market."

Discussion Questions

1. What strategic mistakes did Nokia make in the U.S. market?
2. Why do you think a "smart" company makes "dumb" mistakes?
3. What strategies is Nokia using to revitalize its North American business?
4. How could Nokia have done better at using strategic management? What does this case story tell you about strategic management?

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Planning Tools *and* Techniques Module

Managers in baseball team front offices have discovered certain factors dictate whether they can charge more for tickets—namely, weather reports, winning streaks, and a big factor: pitching matchups.[1] The San Francisco Giants are the first Major League Baseball team to try and ride these shifts in demand by repricing tickets daily, a technique known as dynamic pricing. How well does it work? In 2009, the Giants were able to earn an extra $500,000 in revenue from dynamic pricing. In 2010, revenues increased about 6 percent.

As this example shows, managers use planning tools and techniques to help their organizations be more efficient and effective. In this module, we discuss three categories of basic planning tools and techniques: techniques for assessing the environment, techniques for allocating resources, and contemporary planning techniques.

Techniques for Assessing the Environment

Leigh Knopf, former senior manager for strategic planning at the AICPA, says that many larger accounting firms have set up external analysis departments to "study the wider environment in which they, and their clients, operate." These organizations have recognized that, "What happens in India in today's environment may have an impact on an American accounting firm in North Dakota."[2] In our description of the strategic management process in Chapter 9, we discussed the importance of assessing the organization's environment. Three techniques help managers do that: environmental scanning, forecasting, and benchmarking.

Environmental Scanning

How important is environmental scanning? While looking around on competitor Google's company Web site, Bill Gates found a help-wanted page with descriptions of all the open jobs. What piqued his interest, however, was that many of these posted job qualifications were identical to Microsoft's job requirements. He began to wonder why Google—a Web search company—would be posting job openings for software engineers with backgrounds that "had nothing to do with web searches and everything to do with Microsoft's core business of operating-system design, compiler optimization, and distributed-systems architecture." Gates e-mailed an urgent message to some of his top executives saying that Microsoft had better be on its toes because it sure looked like Google was preparing to move into being more of a software company.[3]

How can managers become aware of significant environmental changes such as a new law in Germany permitting shopping for "tourist items" on Sunday; the increased trend of counterfeit consumer products in South Africa; the precipitous decline in the working-age populations in Japan, Germany, Italy, and Russia; or the decrease in family size in Mexico? Managers in both small and large organizations use **environmental scanning**, which is the screening of large amounts of information to anticipate and interpret changes in the environment. Extensive environmental scanning is likely to reveal issues and concerns that could affect an organization's current or planned activities. Research has shown that companies that use environmental scanning have higher

performance.[4] Organizations that don't keep on top of environmental changes are likely to experience the opposite!

COMPETITOR INTELLIGENCE. A fast-growing area of environmental scanning is **competitor intelligence**.[5] It's a process by which organizations gather information about their competitors and get answers to questions such as Who are they? What are they doing? How will what they're doing affect us? Let's look at an example of how one organization used competitor intelligence in its planning. Dun & Bradstreet (D&B), a leading provider of business information, has an active business intelligence division. The division manager received a call from an assistant vice president for sales in one of the company's geographic territories. This person had been on a sales call with a major customer and the customer happened to mention in passing that another company had visited and made a major presentation about its services. What was interesting was that, although D&B had plenty of competitors, this particular company wasn't one of them. The manager gathered together a team that sifted through dozens of sources (research services, Internet, personal contacts, and other external sources) and quickly became convinced that there was something to this; that this company was "aiming its guns right at us." Managers at D&B jumped into action to develop plans to counteract this competitive attack.[6]

Competitor intelligence experts suggest that 80 percent of what managers need to know about competitors can be found out from their own employees, suppliers, and customers.[7] Competitor intelligence doesn't have to involve spying. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, want ads, newspaper reports, and industry studies are examples of readily accessible sources of information. Attending trade shows and debriefing the company's salesforce can be other good sources of competitor information. Many firms regularly buy competitors' products and have their own engineers study them (through a process called *reverse engineering*) to learn about new technical innovations. In addition, the Internet has opened up vast sources of competitor intelligence as many corporate Web pages include new product information and other press releases.

Managers need to be careful about the way competitor information is gathered to prevent any concerns about whether it's legal or ethical. For instance, at Procter & Gamble, executives hired competitive intelligence firms to spy on its competitors in the hair-care business. At least one of these firms misrepresented themselves to competitor Unilever's employees, trespassed at Unilever's hair-care headquarters in Chicago, and went through trash dumpsters to gain information. When P&G's CEO found out, he immediately fired the individuals responsible and apologized to Unilever.[8] Competitor intelligence becomes illegal corporate spying when it involves the theft of proprietary materials or trade secrets by any means. The Economic Espionage Act makes it a crime in the United States to engage in economic espionage or to steal a trade secret.[9] The difficult decisions about competitive intelligence arise because often there's a fine line between what's considered *legal and ethical* and what's considered *legal but unethical*. Although the top manager at one competitive intelligence firm contends that 99.9 percent of intelligence gathering is legal, there's no question that some people or companies will go to any lengths—some unethical—to get information about competitors.[10]

GLOBAL SCANNING. One type of environmental scanning that's particularly important is global scanning. Because world markets are complex and dynamic, managers have expanded the scope of their scanning efforts to gain vital information on global forces that might affect their organizations.[11] The value of global scanning to managers, of course, largely depends on the extent of the organization's global activities. For a company that has significant global interests, global scanning can be quite valuable. For instance, Sealed Air Corporation of Elmwood Park, New Jersey—you've probably seen and used its most popular product, Bubble Wrap—tracks global demographic changes. Company managers found that as countries move from agriculture-based societies to industrial ones, the population tends to eat out more and favor prepackaged foods, which translates to more sales of its food packaging products.[12]

Because the sources that managers use for scanning the domestic environment are too limited for global scanning, managers must globalize their perspectives. For instance, they can subscribe to information clipping services that review world newspapers and business periodicals and provide summaries of desired information. Also, there are numerous electronic services that provide topic searches and automatic updates in global areas of special interest to managers.

Forecasting

The second technique managers can use to assess the environment is forecasting. Forecasting is an important part of planning and managers need forecasts that will allow them to predict future events effectively and in a timely manner. Environmental scanning establishes the basis for **forecasts**, which are predictions of outcomes. Virtually any component in an organization's environment can be forecasted. Let's look at how managers forecast and the effectiveness of those forecasts.

environmental scanning
The screening of large amounts of information to anticipate and interpret changes in the environment

competitor intelligence
Environmental scanning activity by which organizations gather information about competitors

forecasts
Predictions of outcome

FORECASTING TECHNIQUES. Forecasting techniques fall into two categories: quantitative and qualitative. **Quantitative forecasting** applies a set of mathematical rules to a series of past data to predict outcomes. These techniques are preferred when managers have sufficient hard data that can be used. **Qualitative forecasting**, in contrast, uses the judgment and opinions of knowledgeable individuals to predict outcomes. Qualitative techniques typically are used when precise data are limited or hard to obtain. Exhibit PM-1 describes some popular forecasting techniques.

Today, many organizations collaborate on forecasts using an approach known as CPFR, which stands for collaborative planning, forecasting, and replenishment.[13] CPFR provides a framework for the flow of information, goods, and services between retailers and manufacturers. Each organization relies on its own data to calculate a demand forecast for a particular product. If their respective forecasts differ by a certain amount (say 10%), the retailer and manufacturer exchange data and written comments until they arrive at a more accurate forecast. Such collaborative forecasting helps both organizations do a better job of planning.

FORECASTING EFFECTIVENESS. The goal of forecasting is to provide managers with information that will facilitate decision making. Despite its importance to planning, managers have had mixed success with it.[14] For instance, prior to a holiday weekend at the Procter & Gamble factory in Lima, Ohio, managers were preparing to shut down the facility early so as not to have to pay employees for just sitting around and to give them some extra time off. The move seemed to make sense since an analysis of purchase orders and historical sales trends indicated that the factory had already produced enough cases of Liquid Tide detergent to meet laundry demand over the holiday. However, managers got a real surprise. One of the company's largest retail customers placed a sizable—and unforeseen—order. They had to reopen the plant, pay the workers overtime, and schedule emergency shipments to meet the retailer's request.[15] As this example shows, managers' forecasts aren't always accurate. In a survey of financial managers in the United States, United Kingdom, France, and Germany, 84 percent of the respondents said their financial forecasts were inaccurate by 5 percent or more; 54 percent of the respondents reported inaccuracy of 10 percent or more.[16] Results of another survey showed that 39 percent of financial executives said they could reliably forecast revenues only one quarter out. Even more disturbing is that 16 percent of those executives said they were "in the dark" about revenue forecasts.[17] But it is

EXHIBIT PM-1
Forecasting Techniques

Technique	Description	Application
Quantitative		
Time series analysis	Fits a trend line to a mathematical equation and projects into the future by means of this equation	Predicting next quarter's sales on the basis of 4 years of previous sales data
Regression models	Predicts one variable on the basis of known or assumed other variables	Seeking factors that will predict a certain level of sales (e.g., price, advertising expenditures)
Econometric models	Uses a set of regression equations to simulate segments of the economy	Predicting change in car sales as a result of changes in tax laws
Economic indicators	Uses one or more economic indicators to predict a future state of the economy	Using change in GNP to predict discretionary income
Substitution effect	Uses a mathematical formula to predict how, when, and under what circumstances a new product or technology will replace an existing one	Predicting the effect of DVD players on the sale of VHS players
Qualitative		
Jury of opinion	Combines and averages the opinions of experts	Polling the company's human resource managers to predict next year's college recruitment needs
Salesforce composition	Combines estimates from field sales personnel of customers' expected purchases	Predicting next year's sales of industrial lasers
Customer evaluation	Combines estimates from established customers' purchases	Surveying major car dealers by a car manufacturer to determine types and quantities of products desired

important to try to make forecasting as effective as possible, because research shows that a company's forecasting ability can be a distinctive competence.[18] Here are some suggestions for making forecasting more effective.[19]

First, it's important to understand that forecasting techniques are most accurate when the environment is not rapidly changing. The more dynamic the environment, the more likely managers are to forecast ineffectively. Also, forecasting is relatively ineffective in predicting nonseasonal events such as recessions, unusual occurrences, discontinued operations, and the actions or reactions of competitors. Next, use simple forecasting methods. They tend to do as well as, and often better than, complex methods that may mistakenly confuse random data for meaningful information. For instance, at St. Louis–based Emerson Electric, chairman emeritus Chuck Knight found that forecasts developed as part of the company's planning process indicated that the competition wasn't just domestic anymore, but global. He didn't use any complex mathematical techniques to come to this conclusion but instead relied on the information already collected as part of his company's planning process. Next, look at involving more people in the process. At *Fortune* 100 companies, it's not unusual to have 1,000 to 5,000 managers providing forecasting input. These businesses are finding that as more people are involved in the process, the more the reliability of the outcomes improves.[20] Next, compare every forecast with "no change." A no change forecast is accurate approximately half the time. Next, use *rolling* forecasts that look 12 to 18 months ahead, instead of using a single, static forecast. These types of forecasts can help managers spot trends better and help their organizations be more adaptive in changing environments.[21] It's also important to not rely on a single forecasting method. Make forecasts with several models and average them, especially when making longer-range forecasts. Next, don't assume that you can accurately identify turning points in a trend. What is typically perceived as a significant turning point often turns out to be simply a random event. And, finally, remember that forecasting *is* a managerial skill and as such can be practiced and improved. Forecasting software has made the task somewhat less mathematically challenging, although the "number crunching" is only a small part of the activity. Interpreting the forecast and incorporating that information into planning decisions is the challenge facing managers.

Benchmarking

Suppose that you're a talented pianist or gymnast. To make yourself better, you want to learn from the best so you watch outstanding musicians or athletes for motions and techniques they use as they perform. That same approach is involved in the final technique for assessing the environment we're going to discuss—**benchmarking**, the search for the best practices among competitors or noncompetitors that lead to their superior performance.[22] Does benchmarking work? Studies show that users have achieved 69 percent faster growth and 45 percent greater productivity.[23]

The basic idea behind benchmarking is that managers can improve performance by analyzing and then copying the methods of the leaders in various fields. Organizations such as Nissan, Payless Shoe Source, the U.S. military, General Mills, United Airlines, and Volvo Construction Equipment have used benchmarking as a tool in improving performance. In fact, some companies have chosen some pretty unusual benchmarking partners! IBM studied Las Vegas casinos for ways to discourage employee theft. Many hospitals have benchmarked their admissions processes against Marriott Hotels. And Giordano Holdings Ltd., a Hong Kong–based manufacturer and retailer of mass-market casual wear, borrowed its "good quality, good value" concept from Marks & Spencer, used Limited Brands to benchmark its point-of-sales computerized information system, and modeled its simplified product offerings on McDonald's menu.[24]

What does benchmarking involve? Exhibit PM-2 illustrates the four steps typically used in benchmarking.

Techniques for Allocating Resources

Once an organization's goals have been established, it's important to determine how those goals are going to be accomplished. Before managers can organize and lead as goals are implemented, they must have **resources**, which are the assets of the organization (financial, physical, human, and intangible). How can managers allocate these resources effectively and efficiently so that organizational goals are met? Although managers can choose from a number of techniques for allocating resources (many of which are covered in courses on accounting, finance, and operations management), we'll discuss four techniques here: budgeting, scheduling, breakeven analysis, and linear programming.

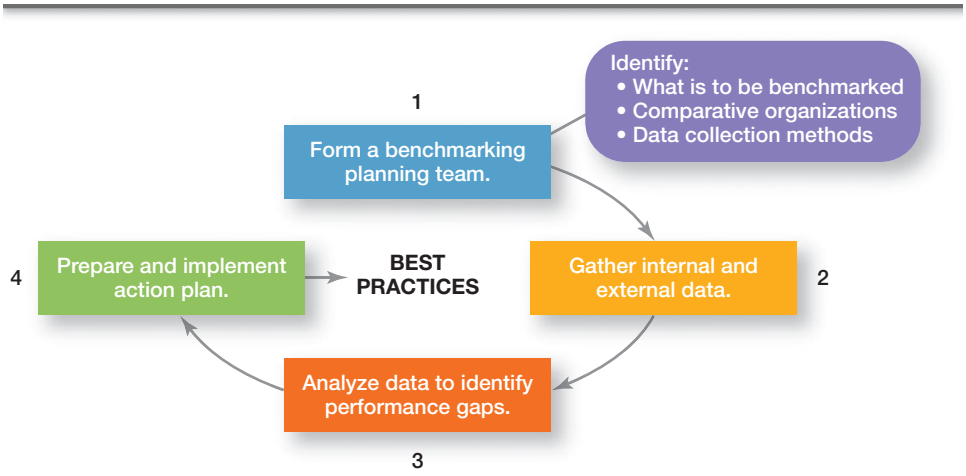
quantitative forecasting
Forecasting that applies a set of mathematical rules to a series of past data to predict outcome

qualitative forecasting
Forecasting that uses the judgment and opinions of knowledgeable individuals to predict outcomes

benchmarking
The search for the best practices among competitors or noncompetitors that lead to their superior performance

resources
The assets of the organization including financial, physical, human, intangible, and structural/cultural

EXHIBIT PM-2
Steps in Benchmarking



Source: Based on Y. K. Shetty, "Aiming High: Competitive Benchmarking for Superior Performance," *Long Range Planning*, February 1993, p. 42.

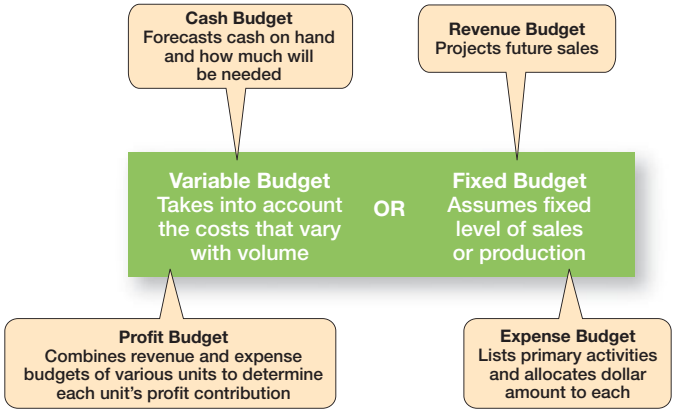
Budgeting

Most of us have had some experience, as limited as it might be, with budgets. We probably learned at an early age that unless we allocated our "revenues" carefully, our weekly allowance was spent on "expenses" before the week was half over.

A **budget** is a numerical plan for allocating resources to specific activities. Managers typically prepare budgets for revenues, expenses, and large capital expenditures such as equipment. It's not unusual, though, for budgets to be used for improving time, space, and use of material resources. These types of budgets substitute nondollar numbers for dollar amounts. Such items as person-hours, capacity utilization, or units of production can be budgeted for daily, weekly, or monthly activities. Exhibit PM-3 describes the different types of budgets that managers might use.

Why are budgets so popular? Probably because they're applicable to a wide variety of organizations and work activities within organizations. We live in a world in which almost everything is expressed in monetary units. Dollars, rupees, pesos, euros, yuan, yen, and the like are used as a common measuring unit within a country. That's why monetary budgets are a useful tool for allocating resources and guiding work in such diverse departments as manufacturing and information systems or at various levels in an organization. Budgets are one planning technique that most managers, regardless of organizational level, use. It's an important managerial activity because it forces financial discipline and structure

EXHIBIT PM-3
Types of Budgets



Source: Based on R. S. Russell and B. W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

- Collaborate and communicate.
- Be flexible.
- Goals should drive budgets—budgets should not determine goals.
- Coordinate budgeting throughout the organization.
- Use budgeting/planning software when appropriate.
- Remember that budgets are tools.
- Remember that profits result from smart management, not because you budgeted for them.

EXHIBIT PM-4
How to Improve Budgeting

throughout the organization. However, many managers don't like preparing budgets because they feel the process is time consuming, inflexible, inefficient, and ineffective.[25] How can the budgeting process be improved? Exhibit PM-4 provides some suggestions. Organizations such as Texas Instruments, IKEA, Hendrick Motorsports, Volvo, and Svenska Handelsbanken have incorporated several of these suggestions as they revamped their budgeting processes.

Scheduling

Jackie is a manager at a Chico's store in San Francisco. Every week, she determines employees' work hours and the store area where each employee will be working. If you observed any group of supervisors or department managers for a few days, you would see them doing much the same—allocating resources by detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed. These managers are **scheduling**. In this section, we'll review some useful scheduling devices including Gantt charts, load charts, and PERT network analysis.

GANTT CHARTS. The **Gantt chart** was developed during the early 1900s by Henry Gantt, an associate of Frederick Taylor, the scientific management expert. The idea behind a Gantt chart is simple. It's essentially a bar graph with time on the horizontal axis and the activities to be scheduled on the vertical axis. The bars show output, both planned and actual, over a period of time. The Gantt chart visually shows when tasks are supposed to be done and compares those projections with the actual progress on each task. It's a simple but important device that lets managers detail easily what has yet to be done to complete a job or project and to assess whether an activity is ahead of, behind, or on schedule.

Exhibit PM-5 depicts a simplified Gantt chart for book production developed by a manager in a publishing company. Time is expressed in months across the top of the chart. The major work activities are listed down the left side. Planning involves deciding what activities need to be done to get the book finished, the order in which those activities need to be completed, and the time that should be allocated to each activity. Where a box sits within a time frame reflects its planned sequence. The shading represents actual progress. The chart also serves as a control tool because the manager can see deviations from the plan. In this example, both the design of the cover and the review of first pages are running behind schedule. Cover design is

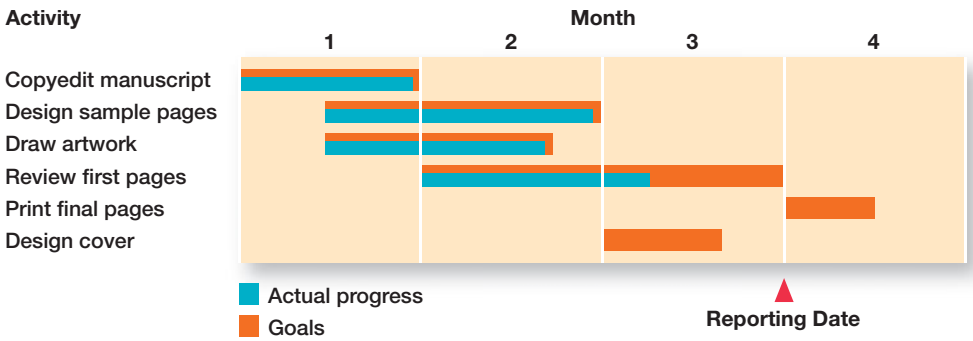


EXHIBIT PM-5
A Gantt Chart

budget
A numerical plan for allocating resources to specific activities

scheduling
Detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed

Gantt chart
A scheduling chart developed by Henry Gantt that shows actual and planned output over a period of time

about three weeks behind (note that there has been no actual progress—shown by blue color line—as of the reporting date), and first pages review is about two weeks behind schedule (note that as of the report date, actual progress—shown by blue color line—is about six weeks, out of a goal of completing in two months). Given this information, the manager might need to take some action to either make up for the two lost weeks or to ensure that no further delays will occur. At this point, the manager can expect that the book will be published at least two weeks later than planned if no action is taken.

LOAD CHARTS. A **load chart** is a modified Gantt chart. Instead of listing activities on the vertical axis, load charts list either entire departments or specific resources. This arrangement allows managers to plan and control capacity utilization. In other words, load charts schedule capacity by work areas.

For example, Exhibit PM-6 shows a load chart for six production editors at the same publishing company. Each editor supervises the production and design of several books. By reviewing a load chart, the executive editor, who supervises the six production editors, can see who is free to take on a new book. If everyone is fully scheduled, the executive editor might decide not to accept any new projects, to accept new projects and delay others, to make the editors work overtime, or to employ more production editors. As this exhibit shows, only Antonio and Maurice are completely scheduled for the next six months. The other editors have some unassigned time and might be able to accept new projects or be available to help other editors who get behind.

PERT NETWORK ANALYSIS. Gantt and load charts are useful as long as the activities being scheduled are few in number and independent of each other. But what if a manager had to plan a large project such as a departmental reorganization, the implementation of a cost-reduction program, or the development of a new product that required coordinating inputs from marketing, manufacturing, and product design? Such projects require coordinating hundreds and even thousands of activities, some of which must be done simultaneously and some of which can't begin until preceding activities have been completed. If you're constructing a building, you obviously can't start putting up the walls until the foundation is laid. How can managers schedule such a complex project? The program evaluation and review technique (PERT) is highly appropriate for such projects.

A **PERT network** is a flowchart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity. With a PERT network, a manager must think through what has to be done, determine which events depend on one another, and identify potential trouble spots. PERT also makes it easy to compare the effects alternative actions might have on scheduling and costs. Thus, PERT allows managers to monitor a project's progress, identify possible bottlenecks, and shift resources as necessary to keep the project on schedule.

To understand how to construct a PERT network, you need to know four terms. **Events** are end points that represent the completion of major activities. **Activities** represent the time or resources required to progress from one event to another. **Slack time** is the amount of time an individual activity can be delayed without delaying the whole project. The **critical path** is the longest or most time-consuming sequence of events and activities in a PERT network. Any delay in completing events on this path would delay completion of the entire project. In other words, activities on the critical path have zero slack time.

Developing a PERT network requires that a manager identify all key activities needed to complete a project, rank them in order of occurrence, and estimate each activity's completion time. Exhibit PM-7 explains the steps in this process.

Most PERT projects are complicated and include numerous activities. Such complicated computations can be done with specialized PERT software. However, let's work through a simple example. Assume that you're the superintendent at a construction company and have been assigned to oversee the construction of an office building. Because time really is money in your business, you must determine how long it will take to get the building completed. You've determined the

EXHIBIT PM-6
A Load Chart

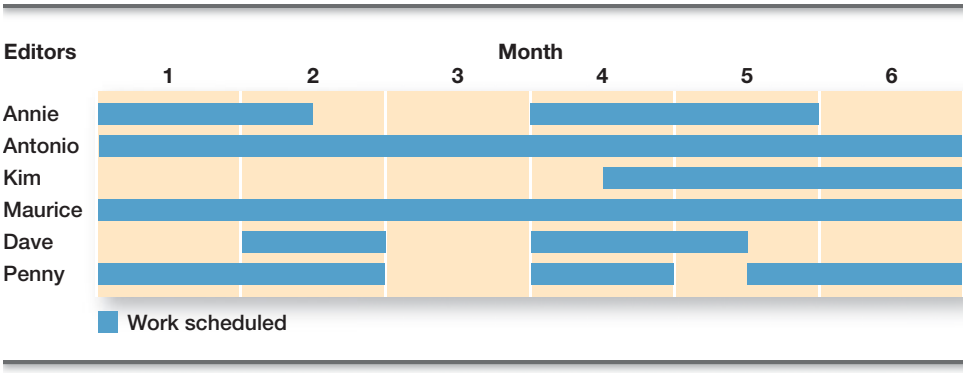


EXHIBIT PM-7
Steps in Developing a PERT Network

1. *Identify every significant activity that must be achieved for a project to be completed.* The accomplishment of each activity results in a set of events or outcomes.
2. *Determine the order in which these events must be completed.*
3. *Diagram the flow of activities from start to finish, identifying each activity and its relationship to all other activities.* Use circles to indicate events and arrows to represent activities. This results in a flowchart diagram called a PERT network.
4. *Compute a time estimate for completing each activity.* This is done with a weighted average that uses an *optimistic* time estimate (t_o) of how long the activity would take under ideal conditions, a *most likely* estimate (t_m) of the time the activity normally should take, and a *pessimistic* estimate (t_p) that represents the time that an activity should take under the worst possible conditions. The formula for calculating the expected time (t_e) is then

$$t_e = \frac{t_o + 4t_m + t_p}{6}$$

5. *Using the network diagram that contains time estimates for each activity, determine a schedule for the start and finish dates of each activity and for the entire project.* Any delays that occur along the critical path require the most attention because they can delay the whole project.

specific activities and events. Exhibit PM-8 outlines the major events in the construction project and your estimate of the expected time to complete each. Exhibit PM-9 shows the actual PERT network based on the data in Exhibit PM-8. You've also calculated the length of time that each path of activities will take:

A-B-C-D-I-J-K (44 weeks)
A-B-C-D-G-H-J-K (50 weeks)
A-B-C-E-G-H-J-K (47 weeks)
A-B-C-F-G-H-J-K (47 weeks)

Your PERT network shows that if everything goes as planned, the total project completion time will be 50 weeks. This is calculated by tracing the project's critical path (the longest sequence of activities): A-B-C-D-G-H-J-K and adding up the times. You know that any delay in completing the events on this path would delay the completion of the entire project. Taking six weeks instead of four to put in the floor covering and paneling (Event I) would have no effect on the final completion date. Why? Because that event isn't on the critical path. However, taking seven weeks instead of

EXHIBIT PM-8
Events and Activities in Constructing an Office Building

Event	Description	Expected Time (in weeks)	Preceding Event
A	Approve design and get permits	10	None
B	Dig subterranean garage	6	A
C	Erect frame and siding	14	B
D	Construct floor	6	C
E	Install windows	3	C
F	Put on roof	3	C
G	Install internal wiring	5	D, E, F
H	Install elevator	5	G
I	Put in floor covering and paneling	4	D
J	Put in doors and interior decorative trim	3	I, H
K	Turn over to building management group	1	J

load chart
A modified Gantt chart that schedules capacity by entire departments or specific resources

PERT network
A flowchart diagram showing the sequence of activities needed to complete a project and the time or cost associated with each

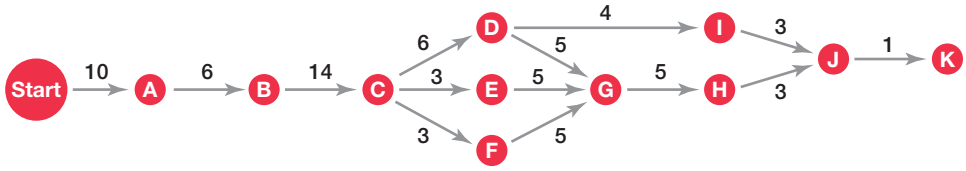
events
End points that represent the completion of major activities in a PERT network

activities
The time or resources needed to progress from one event to another in a PERT network

slack time
The amount of time an individual activity can be delayed without delaying the whole project

critical path
The longest sequence of activities in a PERT network

EXHIBIT PM-9
PERT Network for Constructing an Office Building



six to dig the subterranean garage (Event B) would likely delay the total project. A manager who needed to get back on schedule or to cut the 50-week completion time would want to concentrate on those activities along the critical path that could be completed faster. How might the manager do this? He or she could look to see if any of the other activities *not* on the critical path had slack time in which resources could be transferred to activities that *were* on the critical path.

Breakeven Analysis

Managers at Glory Foods want to know how many units of their new sensibly seasoned canned vegetables must be sold in order to break even—that is, the point at which total revenue is just sufficient to cover total costs. **Breakeven analysis** is a widely used resource allocation technique to help managers determine breakeven point.[26]

Breakeven analysis is a simple calculation, yet it's valuable to managers because it points out the relationship between revenues, costs, and profits. To compute breakeven point *(BE)*, a manager needs to know the unit price of the product being sold *(P)*, the variable cost per unit *(VC)*, and total fixed costs *(TFC)*. An organization breaks even when its total revenue is just enough to equal its total costs. But total cost has two parts: fixed and variable. *Fixed costs* are expenses that do not change regardless of volume. Examples include insurance premiums, rent, and property taxes. *Variable costs* change in proportion to output and include raw materials, labor costs, and energy costs.

Breakeven point can be computed graphically or by using the following formula:

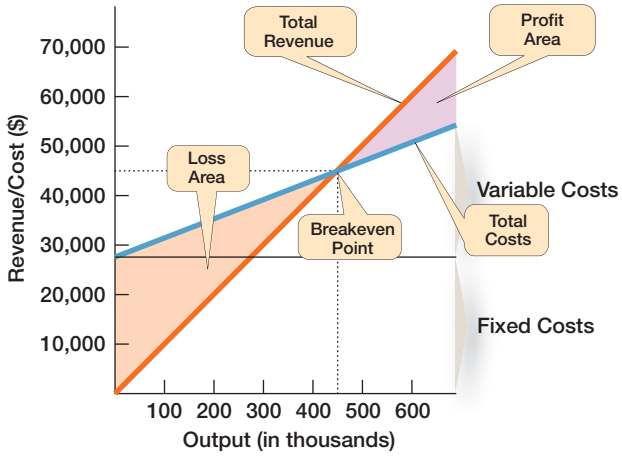
$$BE = \frac{TFC}{P - VC}$$

This formula tells us that (1) total revenue will equal total cost when we sell enough units at a price that covers all variable unit costs, and (2) the difference between price and variable costs, when multiplied by the number of units sold, equals the fixed costs. Let's work through an example.

Assume that Randy's Photocopying Service charges $0.10 per photocopy. If fixed costs are $27,000 a year and variable costs are $0.04 per copy, Randy can compute his breakeven point as follows: $27,000 ÷ ($0.10 – $0.04) = 450,000 copies, or when annual revenues are $45,000 (450,000 copies × $0.10). This same relationship is shown graphically in Exhibit PM-10.

As a planning tool, breakeven analysis could help Randy set his sales goal. For example, he could determine his profit goal and then calculate what sales level is needed to reach that goal. Breakeven analysis could also tell Randy how much volume has to increase to break even if he's currently operating at a loss or how much volume he can afford to lose and still break even.

EXHIBIT PM-10
Breakeven Analysis



Linear Programming

Maria Sanchez manages a manufacturing plant that produces two kinds of cinnamon-scented home fragrance products: wax candles and a woodchip potpourri sold in bags. Business is good, and she can sell all of the products she can produce. Her dilemma: Given that the bags of potpourri and the wax candles are manufactured in the same facility, how many of each product should she produce to maximize profits? Maria can use **linear programming** to solve her resource allocation problem.

Although linear programming can be used here, it can't be applied to all resource allocation problems because it requires that resources be limited, that the goal be outcome optimization, that resources can be combined in alternative ways to produce a number of output mixes, and that a linear relationship exist between variables (a change in one variable must be accompanied by an exactly proportional change in the other).[27] For Maria's business, that last condition would be met if it took exactly twice the amount of raw materials and hours of labor to produce two of a given home fragrance product as it took to produce one.

What kinds of problems can be solved with linear programming? Some applications include selecting transportation routes that minimize shipping costs, allocating a limited advertising budget among various product brands, making the optimal assignment of people among projects, and determining how much of each product to make with a limited number of resources. Let's return to Maria's problem and see how linear programming could help her solve it. Fortunately, her problem is relatively simple, so we can solve it rather quickly. For complex linear programming problems, managers can use computer software programs designed specifically to help develop optimizing solutions.

First, we need to establish some facts about Maria's business. She has computed the profit margins on her home fragrance products at $10 for a bag of potpourri and $18 for a scented candle. These numbers establish the basis for Maria to be able to express her *objective function* as maximum profit $= \$10P + \$18S$, where P is the number of bags of potpourri produced and S is the number of scented candles produced. The objective function is simply a mathematical equation that can predict the outcome of all proposed alternatives. In addition, Maria knows how much time each fragrance product must spend in production and the monthly production capacity (1,200 hours in manufacturing and 900 hours in assembly) for manufacturing and assembly. (See Exhibit PM-11.) The production capacity numbers act as *constraints* on her overall capacity. Now Maria can establish her constraint equations:

$$2P + 4S \leq 1{,}200$$
$$2P + 2S \leq 900$$

Of course, Maria can also state that $P \geq 0$ and $S \geq 0$ because neither fragrance product can be produced in a volume less than zero.

Maria has graphed her solution in Exhibit PM-12. The shaded area represents the options that don't exceed the capacity of either department. What does this mean? Well, let's look first at the manufacturing constraint line BE. We know that total manufacturing capacity is 1,200 hours, so if Maria decides to produce all potpourri bags, the maximum she can produce is 600 (1,200 hours ÷ 2 hours required to produce a bag of potpourri). If she decides to produce all scented candles, the maximum she can produce is 300 (1,200 hours ÷ 4 hours required to produce a scented candle). The other constraint Maria faces is that of assembly, shown by line DF. If Maria decides to produce all potpourri bags, the maximum she can assemble is 450 (900 hours production capacity ÷ 2 hours required to assemble). Likewise, if Maria decides to produce all scented candles, the maximum she can assemble is also 450 because the scented candles also take 2 hours to assemble. The constraints imposed by these capacity limits establish Maria's *feasibility region*. Her optimal resource allocation will be defined at one of the corners within this feasibility region. Point C provides the maximum profits within the constraints stated. How do we know? At point A, profits would be 0 (no production of either potpourri bags or scented candles). At point B, profits would be $5,400 (300 scented candles

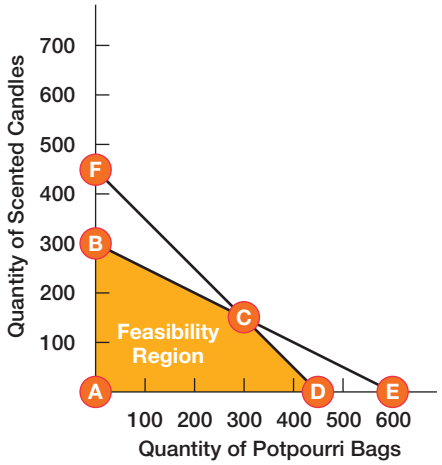
Department	Number of Hours Required (per unit)		Monthly Production Capacity (in hours)
	Potpourri Bags	Scented Candles	
Manufacturing	2	4	1,200
Assembly	2	2	900
Profit per unit	$10	$18	

EXHIBIT PM-11
Production Data for Cinnamon-Scented Products

breakeven analysis
A technique for identifying the point at which total revenue is just sufficient to cover total costs

linear programming
A mathematical technique that solves resource allocation problems

EXHIBIT PM-12
Graphical Solution to Linear Programming Problem



× $18 profit and 0 potpourri bags produced = $5,400). At point D, profits would be $4,500 (450 potpourri bags produced × $10 profit and 0 scented candles produced = $4,500). At point C, however, profits would be $5,700 (150 scented candles produced × $18 profit and 300 potpourri bags produced × $10 profit = $5,700).

Contemporary Planning Techniques

Lowest home mortgage rates since 1950s. H1N1 flu pandemic. Chemical/biological attacks. Recession/inflation worries. Category 4 or 5 hurricanes. Changing competition. Today's managers face the challenges of planning in an environment that's both dynamic and complex. Two planning techniques that are appropriate for this type of environment are project management and scenarios. Both techniques emphasize *flexibility*, something that's important to making planning more effective and efficient in this type of organizational environment.

Project Management

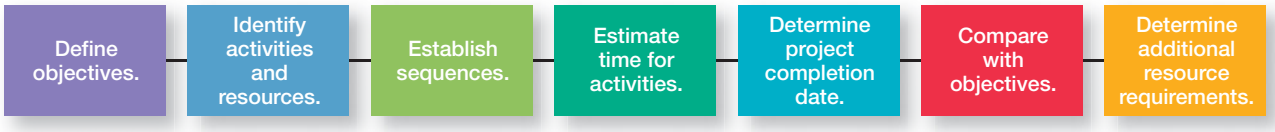
Different types of organizations, from manufacturers such as Coleman and Boeing to software design firms such as SAS and Microsoft, use projects. A **project** is a one-time-only set of activities that has a definite beginning and ending point in time.[28] Projects vary in size and scope—from Boston's "big dig" downtown traffic tunnel to a sorority's holiday formal. **Project management** is the task of getting a project's activities done on time, within budget, and according to specifications.[29]

More and more organizations are using project management because the approach fits well with the need for flexibility and rapid response to perceived market opportunities. When organizations undertake projects that are unique, have specific deadlines, contain complex interrelated tasks requiring specialized skills, and are temporary in nature, these projects often do not fit into the standardized planning procedures that guide an organization's other routine work activities. Instead, managers use project management techniques to effectively and efficiently accomplish the project's goals. What does the project management process involve?

PROJECT MANAGEMENT PROCESS. In the typical project, work is done by a project team whose members are assigned from their respective work areas to the project and who report to a project manager. The project manager coordinates the project's activities with other departments. When the project team accomplishes its goals, it disbands and members move on to other projects or back to their permanent work area.

The essential features of the project planning process are shown in Exhibit PM-13. The process begins by clearly defining the project's goals. This step is necessary because the manager and the team members need to know what's expected. All activities in the project and the resources needed to do them must then be identified. What materials and labor are needed to complete the project? This step may be time-consuming and complex, particularly if the project is unique and the managers have no history or experience with similar projects. Once the activities have been identified, the sequence of completion needs to be determined. What activities must be completed before others can begin? Which can be done simultaneously? This step often uses flowchart diagrams such as a Gantt chart, a load chart, or a PERT network. Next, the project activities need to be scheduled. Time estimates for each activity are done, and these estimates are used to develop an overall project schedule and completion date. Then the project schedule

EXHIBIT PM-13
Project Planning Process



Source: Based on R. S. Russell and B. W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

is compared to the goals, and any necessary adjustments are made. If the project completion time is too long, the manager might assign more resources to critical activities so they can be completed faster.

Today, the project management process can take place online as a number of Web-based software packages are available. These packages cover aspects from project accounting and estimating to project scheduling and bug and defect tracking.[30]

THE ROLE OF THE PROJECT MANAGER. The temporary nature of projects makes managing them different from, say, overseeing a production line or preparing a weekly tally of costs on an ongoing basis. The one-shot nature of the work makes project managers the organizational equivalent of a hired gunman. There's a job to be done. It has to be defined—in detail. And the project manager is responsible for how it's done. At J.B. Hunt Transport Services, the head of project management trains project managers on both technical and interpersonal skills so that they know how to ". . . run a project effectively."[31]

Even with the availability of sophisticated computerized and online scheduling programs and other project management tools, the role of project manager remains difficult because he or she is managing people who typically are still assigned to their permanent work areas. The only real influence project managers have is their communication skills and their power of persuasion. To make matters worse, team members seldom work on just one project. They're usually assigned to two or three at any given time. So project managers end up competing with each other to focus a worker's attention on his or her particular project.

Scenario Planning

During the 1990s, business was so good at Colgate-Palmolive that then-chairman Reuben Mark worried about what "might go wrong." He installed an "early-warning system to flag problems before they blew up into company-wrecking crises." For instance, a red-flag report alerted Mark "that officials in Baddi, India, had questions about how a plant treated wastewater." Mark's response was to quickly assign an engineering team to check it out and prevent potential problems.[32]

We already know how important it is that today's managers do what Reuben Mark was doing—monitor and assess the external environment for trends and changes. As they assess the environment, issues and concerns that could affect their organization's current or planned operations are likely to be revealed. All of these issues won't be equally important, so it's usually necessary to focus on a limited set that are most important and to develop scenarios based on each.

A **scenario** is a consistent view of what the future is likely to be. Developing scenarios also can be described as *contingency planning*; that is, if this event happens, then we need to take these actions. If, for instance, environmental scanning reveals increasing interest by the U.S. Congress for raising the national minimum wage, managers at Subway could create multiple scenarios to assess the possible consequences of such an action. What would be the implications for its labor costs if the minimum wage was raised to $10 an hour? How about $12 an hour? What effect would these changes have on the chain's bottom line? How might competitors respond? Different assumptions lead to different outcomes. The intent of scenario planning is not to try to predict the future but to reduce uncertainty by playing out potential situations under different specified conditions.[33] Subway could, for example, develop a set of scenarios ranging from optimistic to pessimistic in terms of the minimum wage issue. It would then be prepared to implement new strategies to get and keep a competitive advantage. An expert in scenario planning said, "Just the process of doing scenarios causes executives to rethink and clarify the essence of the business environment in ways they almost certainly have never done before."[34]

project
A one-time-only set of activities that has a definite beginning and ending point in time

project management
The task of getting a project's activities done on time, within budget, and according to specifications

scenario
A consistent view of what the future is likely to be

Although scenario planning is useful in anticipating events that *can be* anticipated, it's difficult to forecast random events—the major surprises and aberrations that can't be foreseen. For instance, an outbreak of deadly and devastating tornadoes in southwest Missouri on January 7, 2008, was a scenario that could be anticipated. The disaster recovery planning that took place after the storms was effective because this type of scenario had been experienced before. A response had already been planned and people knew what to do. But the planning challenge comes from those totally random and unexpected events. For instance, the 9/11 terrorist attacks in New York and Washington, D.C., were random, unexpected, and a total shock to many organizations. Scenario planning was of little use because no one could have envisioned this scenario. As difficult as it may be for managers to anticipate and deal with these random events, they're not totally vulnerable to the consequences. One suggestion that has been identified by risk experts as particularly important is to have an early warning system in place. (A similar idea is the tsunami warning systems in the Pacific and in Alaska, which alert officials to potentially dangerous tsunamis and give them time to take action.) Early warning indicators for organizations can give managers advance notice of potential problems and changes—such as it did Reuben Mark at Colgate-Palmolive—so they, too, can take action. Then, managers need to have appropriate responses (plans) in place if these unexpected events occur.

Planning tools and techniques can help managers prepare confidently for the future. But they should remember that all the tools we've described in this chapter are just that—tools. They will never replace the manager's skills and capabilities in using the information gained to develop effective and efficient plans.

REVIEW AND DISCUSSION QUESTIONS

1. Describe the different approaches to assessing the environment.
2. Describe the four techniques for allocating resources.
3. How does PERT network analysis work?
4. Why is flexibility so important to today's planning techniques?
5. What is project management, and what are the steps managers use in planning projects?
6. "It's a waste of time and other resources to develop a set of sophisticated scenarios for situations that may never occur." Do you agree or disagree? Support your position.
7. Do intuition and creativity have any relevance in quantitative planning tools and techniques? Explain.
8. The *Wall Street Journal* and other business periodicals often carry reports of companies that have not met their sales or profit forecasts. What are some reasons a company might not meet its forecast? What suggestions could you make for improving the effectiveness of forecasting?
9. In what ways is managing a project different from managing a department or other structured work area? In what ways are they the same?
10. What might be some early warning signs of (a) a new competitor coming into your market, (b) an employee work stoppage, or (c) a new technology that could change demand for your product?

10 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Cindy Brewer
Customer Contact Channel Manager
Sears Holdings Corporation
Loves Park, IL

MY JOB:
I am a customer contact channel manager at Sears Holdings Corporation, and my main focus is on process improvement.

BEST PART OF MY JOB:
Being able to drive process improvements that positively impact the customer and employee experience as well as increase revenue and reduce costs.

Basic Organizational Design

LEARNING OUTCOMES

10.1 **Describe** six key elements in organizational design. *page 264*

10.2 **Contrast** mechanistic and organic structures. *page 273*

10.3 **Discuss** the contingency factors that favor either the mechanistic model or the organic model of organizational design. *page 274*

10.4 **Describe** traditional organizational designs. *page 277*

WORST PART OF MY JOB:
The inability to fix everything at once.

BEST MANAGEMENT ADVICE EVER RECEIVED:
The definition of insanity is doing the same thing over and over while expecting different results. Also, tell the truth always and be responsible.

A Manager's Dilemma

$10 billion. That's how much Eli Lilly & Co. stands to lose in annual revenues between now and 2016 as three of its major drug patents expire.[1] Replacing that revenue is high on the list of "must-do's" for CEO John Lechleiter. The solution is speeding up the pace of drug development, but his challenge is how?

Unlike its global competitors that have addressed similar product development challenges by using large-scale mergers and acquisitions, Lechleiter's focus has been on acquiring smaller drug companies. He said large-scale combinations "provide short-term relief but don't fundamentally address the issue of innovation and how to make (product development) pipelines more productive." Developing new products and moving them forward as quickly as possible on the thorough and mandatory approval process, which can be agonizingly slow, is critical to the company's present and future success.

One action Lechleiter took was revamping the company's operational structure into five global business units: oncology, diabetes, established markets, emerging markets, and animal health. Part of the restructuring also involved creating an improved product research and development center. Now, what other organizational design elements might Lechleiter use to ensure that Lilly achieves its goal of speeding up its product development process?

What Would You Do?

Replacing $10 billion in revenue can't and won't be easy. However, Lilly's CEO, John Lechleiter, understands the importance of organizational structure and design, especially when it comes to the difficult product development challenges facing his company. His initial restructuring actions are ones that many companies undergo when faced with radical environmental challenges in an attempt to become a stronger, more successful organization. His actions also illustrate the importance of designing or redesigning a structure that helps an organization accomplish its goals efficiently and effectively. In this chapter, we'll look at what's involved with that.

LEARNING OUTCOME
Describe six key elements in organizational design.

10.1

Designing Organizational Structure

A short distance south of McAlester, Oklahoma, employees in a vast factory complex make products that must be perfect. These people "are so good at what they do and have been doing it for so long that they have a 100 percent market share."[2] They make bombs for the U.S. military and doing so requires a work environment that's an interesting mix of the mundane, structured, and disciplined, coupled with high levels of risk and emotion. The work gets done efficiently and effectively here. Work also gets done efficiently and effectively at Cisco Systems although not in such a structured and formal way. At Cisco, some 70 percent of the employees work from home at least 20 percent of the time.[3] Both of these organizations get needed work done although each does so using a different structure.

Few topics in management have undergone as much change in the past few years as that of organizing and organizational structure. Managers are reevaluating traditional approaches to find new structural designs that best support and facilitate employees' doing the organization's work—designs that can achieve efficiency but are also flexible.

The basic concepts of organization design formulated by early management writers, such as Henri Fayol and Max Weber, offered structural principles for managers to follow. (Those principles are described on pp. 31–32.) Over 90 years have passed since many of those principles were originally proposed. Given that length of time and all the changes that have taken place, you'd think that those principles would be pretty worthless today. Surprisingly, they're not. For the most part, they still provide valuable insights into designing effective and efficient organizations. Of course, we've also gained a great deal of knowledge over the years as to their limitations.

EXHIBIT 10-1
Purposes of Organizing

- Divides work to be done into specific jobs and departments.
- Assigns tasks and responsibilities associated with individual jobs.
- Coordinates diverse organizational tasks.
- Clusters jobs into units.
- Establishes relationships among individuals, groups, and departments.
- Establishes formal lines of authority.
- Allocates and deploys organizational resources.

In Chapter 1 we defined **organizing** as arranging and structuring work to accomplish organizational goals. It's an important process during which managers design an organization's structure. **Organizational structure** is the formal arrangement of jobs within an organization. This structure, which can be shown visually in an **organizational chart**, also serves many purposes. (See Exhibit 10-1.) When managers create or change the structure, they're engaged in **organizational design**, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.[4]

Work Specialization

At the Wilson Sporting Goods factory in Ada, Ohio, 150 workers (with an average tenure exceeding 20 years) make every football used in the National Football League and most of those used in college and high school football games. To meet daily output goals, the workers specialize in job tasks such as molding, stitching and sewing, lacing, and so forth.[5] This is an example of **work specialization**, which is dividing work activities into separate job tasks. Individual employees "specialize" in doing part of an activity rather than the entire activity in order to increase work output. It's also known as division of labor, a concept we introduced in the management history module.

Work specialization makes efficient use of the diversity of skills that workers have. In most organizations, some tasks require highly developed skills; others can be performed by employees with lower skill levels. If all workers were engaged in all the steps of, say, a manufacturing process, all would need the skills necessary to perform both the most demanding and the least demanding jobs. Thus, except when performing the most highly skilled or highly sophisticated tasks, employees would be working below their skill levels. In addition, skilled workers are paid more than unskilled workers, and, because wages tend to reflect the highest level of skill, all workers would be paid at highly skilled rates to do easy tasks—an inefficient use of resources. This concept explains why you rarely find a cardiac surgeon closing up a patient after surgery. Instead, doctors doing their residencies in open-heart surgery and learning the skill usually stitch and staple the patient after the surgeon has finished the surgery.

Early proponents of work specialization believed that it could lead to great increases in productivity. At the beginning of the twentieth century, that generalization was reasonable. Because specialization was not widely practiced, its introduction almost always generated higher productivity. But, as Exhibit 10-2 illustrates, a good thing can be carried too far. At some point, the human diseconomies from division of labor—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—exceed the economic advantages.[6]

organizing
Arranging and structuring work to accomplish the organization's goals

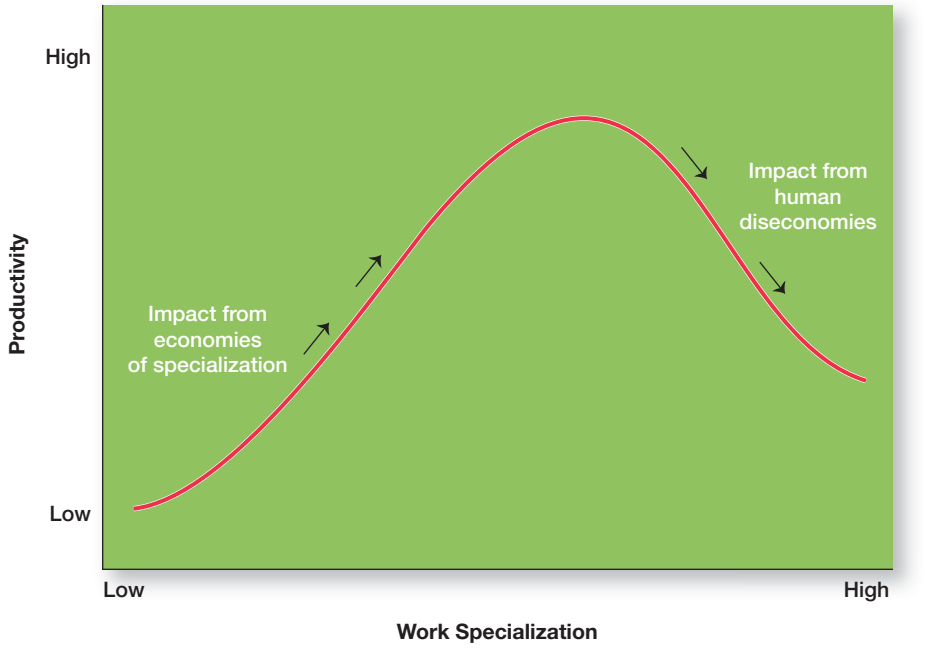
organizational structure
The formal arrangement of jobs within an organization

organizational chart
The visual representation of an organization's structure

organizational design
Creating or changing an organization's structure

work specialization
Dividing work activities into separate job tasks

EXHIBIT 10-2
Economies and Diseconomies of Work Specialization



TODAY'S VIEW. Most managers today continue to see work specialization as important because it helps employees be more efficient. For example, McDonald's uses high work specialization to get its products made and delivered to customers efficiently and quickly—that's why it's called "fast" food. One person takes orders at the drive-through window, others cook and assemble the hamburgers, another works the fryer, another gets the drinks, another bags orders, and so forth. Such single-minded focus on maximizing efficiency has contributed to increasing productivity. In fact, at many McDonald's, you'll see a clock that times how long it takes employees to fill the order; look closer and you'll probably see posted somewhere an order fulfillment time goal. At some point, however, work specialization no longer leads to productivity. That's why companies such as Avery-Dennison, Ford Australia, Hallmark, and American Express use minimal work specialization and instead give employees a broad range of tasks to do.

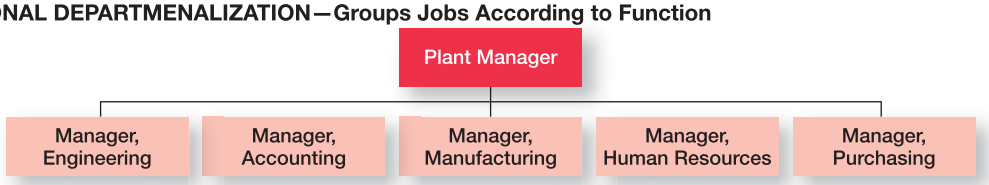
Departmentalization

Does your college have a department of student services or financial aid department? Are you taking this course through a management department? After deciding what job tasks will be done by whom, common work activities need to be grouped back together so work gets done in a coordinated and integrated way. How jobs are grouped together is called **departmentalization**. Five common forms of departmentalization are used, although an organization may develop its own unique classification. (For instance, a hotel might have departments such as front desk operations, sales and catering, housekeeping and laundry, and maintenance.) Exhibit 10-3 illustrates each type of departmentalization as well as the advantages and disadvantages of each.

TODAY'S VIEW. Most large organizations continue to use combinations of most or all of these types of departmentalization. For example, a major Japanese electronics firm organizes its divisions along functional lines, its manufacturing units around processes, its sales units around seven geographic regions, and its sales regions into four customer groupings. Black & Decker organizes its divisions along functional lines, its manufacturing units around processes, its sales around geographic regions, and its sales regions around customer groupings.

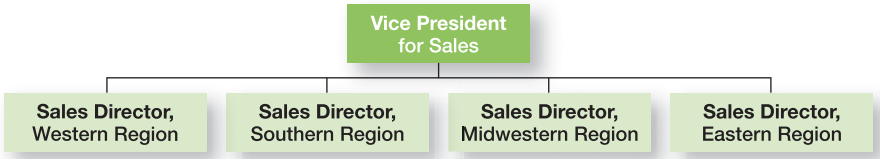
EXHIBIT 10-3
The Five Common Forms of Departmentalization

FUNCTIONAL DEPARTMENALIZATION—Groups Jobs According to Function



\+ Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
\+ Coordination within functional area
\+ In-depth specialization
– Poor communication across functional areas
– Limited view of organizational goals

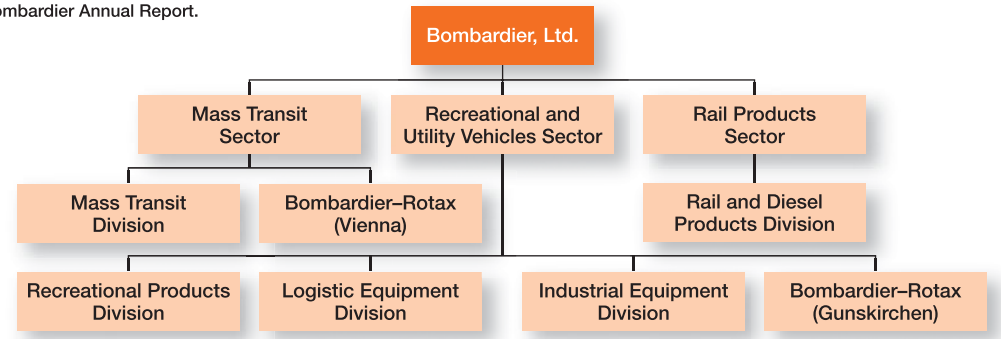
GEOGRAPHICAL DEPARTMENTALIZATION—Groups Jobs According to Geographic Region



\+ More effective and efficient handling of specific regional issues that arise
\+ Serve needs of unique geographic markets better
– Duplication of functions
– Can feel isolated from other organizational areas

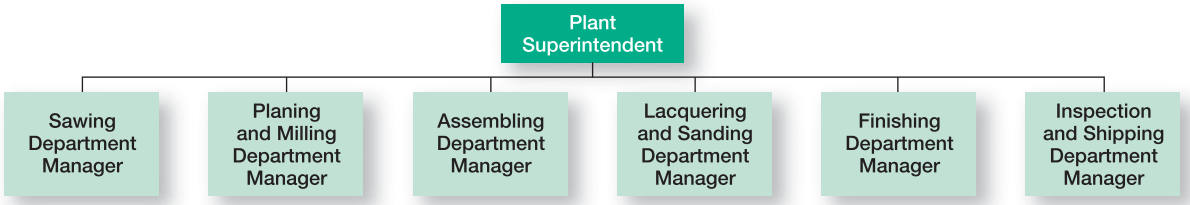
PRODUCT DEPARTMENTALIZATION—Groups Jobs by Product Line

Source: Bombardier Annual Report.



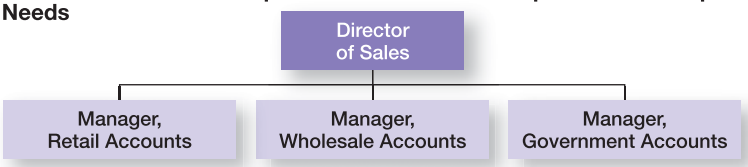
\+ Allows specialization in particular products and services
\+ Managers can become experts in their industry
\+ Closer to customers
– Duplication of functions
– Limited view of organizational goals

PROCESS DEPARTMENTALIZATION—Groups Jobs on the Basis of Product or Customer Flow



\+ More efficient flow of work activities
– Can only be used with certain types of products

CUSTOMER DEPARTMENTALIZATION—Groups Jobs on the Basis of Specific and Unique Customers Who Have Common Needs



\+ Customers' needs and problems can be met by specialists
– Duplication of functions
– Limited view of organizational goals

departmentalization
The basis by which jobs are grouped together

One popular departmentalization trend is the increasing use of customer departmentalization. Because getting and keeping customers is essential for success, this approach works well because it emphasizes monitoring and responding to changes in customers' needs. Another popular trend is the use of teams, especially as work tasks have become more complex and diverse skills are needed to accomplish those tasks. One specific type of team that more organizations are using is a **cross-functional team**, which is a work team composed of individuals from various functional specialties. For instance, at Ford's material planning and logistics division, a cross-functional team of employees from the company's finance, purchasing, engineering, and quality control areas, along with representatives from outside logistics suppliers, has developed several work improvement ideas.[7] We'll discuss cross-functional teams (and all types of teams) more fully in Chapter 13.

Chain of Command

Suppose you were at work and had a problem with some issue that came up. What would you do? Who would you go to help you resolve that issue? People need to know who their boss is. That's what the chain of command is all about. The **chain of command** is the line of authority extending from upper organizational levels to lower levels, which clarifies who reports to whom. Managers need to consider it when organizing work because it helps employees with questions such as "Who do I report to?" or "Who do I go to if I have a problem?" To understand the chain of command, you have to understand three other important concepts: authority, responsibility, and unity of command. Let's look first at authority.

AUTHORITY. Authority was a major concept discussed by the early management writers; they viewed it as the glue that held an organization together. **Authority** refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it.[8] Managers in the chain of command had authority to do their job of coordinating and overseeing the work of others. Authority could be delegated downward to lower-level managers, giving them certain rights while also prescribing certain limits within which to operate. These writers emphasized that authority was related to one's position within an organization and had nothing to do with the personal characteristics of an individual manager. They assumed that the rights and power inherent in one's formal organizational position were the sole source of influence and that if an order was given, it would be obeyed.

Another early management writer, Chester Barnard, proposed another perspective on authority. This view, called the **acceptance theory of authority**, says that authority comes from the willingness of subordinates to accept it.[9] If an employee didn't accept a manager's

Early management writer Chester Barnard proposed that authority comes from the willingness of subordinates to accept it. The Jamba Juice employees shown here (in white T-shirts) illustrate Barnard's acceptance theory of authority by putting their raised hands together with their manager as a sign of unity following a business meeting. Barnard's view of authority contends that subordinates will accept orders when they understand the order, when they view the order as being consistent with the organization's purpose, when the orders do not conflict with their personal beliefs, and when they are able to perform the task as directed.

order, there was no authority. Barnard contended that subordinates *will* accept orders only if the following conditions are satisfied:

1. They understand the order.
2. They feel the order is consistent with the organization's purpose.
3. The order does not conflict with their personal beliefs.
4. They are able to perform the task as directed.

Barnard's view of authority seems to make sense, especially when it comes to an employee's ability to do what he or she is being told to do. For instance, if my manager (my department chair) came into my classroom and told me to do open-heart surgery on one of my students, the traditional view of authority said that I would have to follow that order. Barnard's view would say, instead, that I would talk to my manager about my lack of education and experience to do what he's asked me to do and that it's probably not in the best interests of the student (or our department) for me to follow that order. Yes, this is an extreme—and highly unrealistic—example. However, it does point out that simply viewing a manager's authority as total control over what an employee does or doesn't do is unrealistic also, except in certain circumstances like the military where soldiers are expected to follow their commander's orders. However, do understand that Barnard believed most employees would do what their managers asked them to do if they were able to do so.

The early management writers also distinguished between two forms of authority: line authority and staff authority. **Line authority** entitles a manager to direct the work of an employee. It is the employer–employee authority relationship that extends from the top of the organization to the lowest echelon, according to the chain of command, as shown in Exhibit 10-4. As a link in the chain of command, a manager with line authority has the right to direct the work of employees and to make certain decisions without consulting anyone. Of course, in the chain of command, every manager is also subject to the authority or direction of his or her superior.

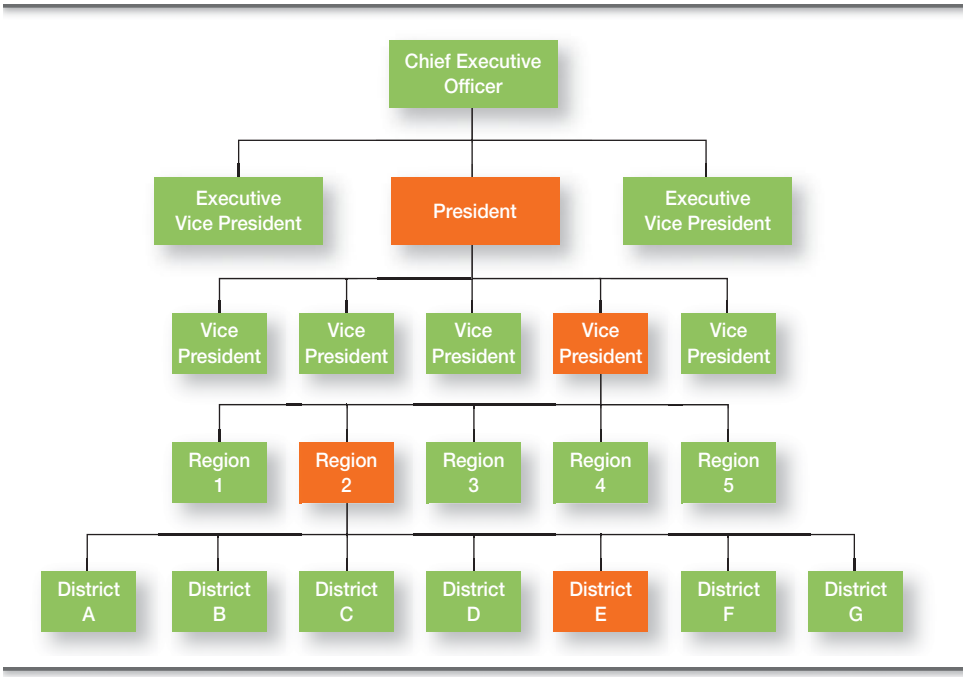


EXHIBIT 10-4
Chain of Command and Line Authority

cross-functional team
A work team composed of individuals from various functional specialties

chain of command
The line of authority extending from upper organizational levels to the lowest levels, which clarifies who reports to whom

authority
The rights inherent in a managerial position to tell people what to do and to expect them to do it

acceptance theory of authority
The view that authority comes from the willingness of subordinates to accept it

line authority
Authority that entitles a manager to direct the work of an employee

Keep in mind that sometimes the term *line* is used to differentiate line managers from staff managers. In this context, *line* refers to managers whose organizational function contributes directly to the achievement of organizational objectives. In a manufacturing firm, line managers are typically in the production and sales functions, whereas managers in human resources and payroll are considered staff managers with staff authority. Whether a manager's function is classified as line or staff depends on the organization's objectives. For example, at Staff Builders, a supplier of temporary employees, interviewers have a line function. Similarly, at the payroll firm of ADP, payroll is a line function.

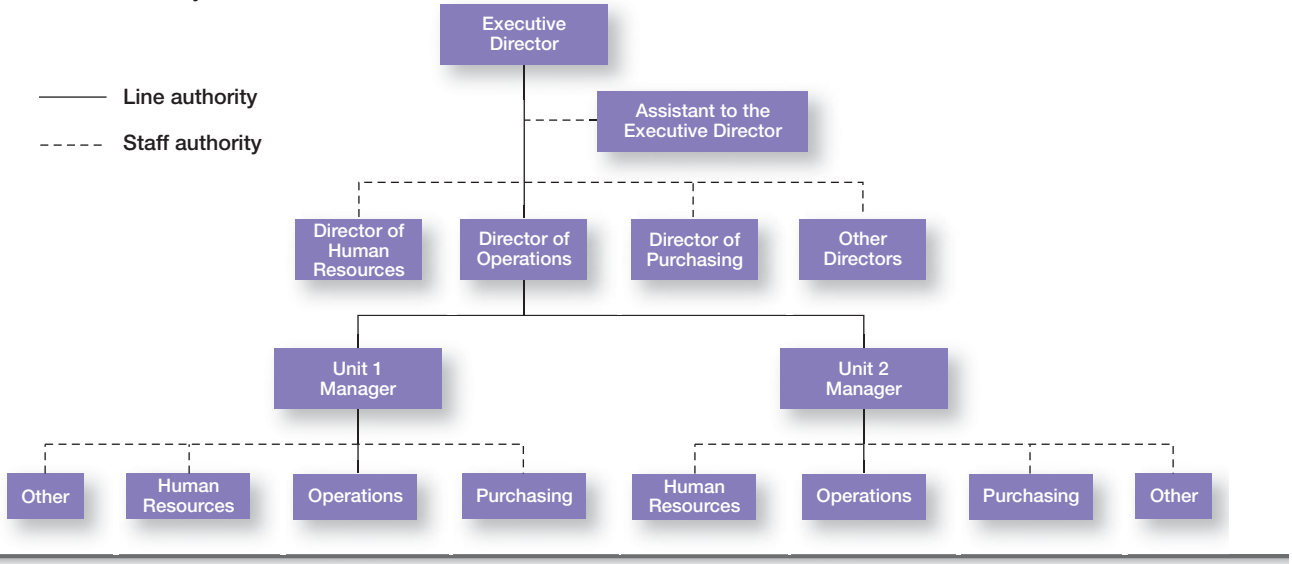
As organizations get larger and more complex, line managers find that they do not have the time, expertise, or resources to get their jobs done effectively. In response, they create **staff authority** functions to support, assist, advise, and generally reduce some of their informational burdens. For instance, a hospital administrator who cannot effectively handle the purchasing of all the supplies the hospital needs creates a purchasing department, which is a staff function. Of course, the head of the purchasing department has line authority over the purchasing agents who work for him. The hospital administrator might also find that she is overburdened and needs an assistant, a position that would be classified as a staff position. Exhibit 10-5 illustrates line and staff authority.

RESPONSIBILITY. When managers use their authority to assign work to employees, those employees take on an obligation to perform those assigned duties. This obligation or expectation to perform is known as **responsibility**. And employees should be held accountable for their performance! Assigning work authority without responsibility and accountability can create opportunities for abuse. Likewise, no one should be held responsible or accountable for work tasks over which he or she has no authority to complete those tasks.

UNITY OF COMMAND. Finally, the **unity of command** principle (one of Fayol's 14 management principles) states that a person should report to only one manager. Without unity of command, conflicting demands from multiple bosses may create problems as it did for Damian Birkel, a merchandising manager in the Fuller Brands division of CPAC, Inc. He found himself reporting to two bosses—one in charge of the department-store business and the other in charge of discount chains. Birkel tried to minimize the conflict by making a combined to-do list that he would update and change as work tasks changed.[10]

TODAY'S VIEW. Although early management theorists (Fayol, Weber, Taylor, Barnard, and others) believed that chain of command, authority (line and staff), responsibility, and unity of

EXHIBIT 10-5
Line Versus Staff Authority



command were essential, times have changed.[11] Those elements are far less important today. For example, at the Michelin plant in Tours, France, managers have replaced the top-down chain of command with "birdhouse" meetings, in which employees meet for five minutes at regular intervals throughout the day at a column on the shop floor and study simple tables and charts to identify production bottlenecks. Instead of being bosses, shop managers are enablers.[12] Information technology also has made such concepts less relevant today. Employees can access information that used to be available only to managers in a matter of a few seconds. It also means that employees can communicate with anyone else in the organization without going through the chain of command. Also, many employees, especially in organizations where work revolves around projects, find themselves reporting to more than one boss, thus violating the unity of command principle. However, such arrangements can and do work if communication, conflict, and other issues are managed well by all involved parties.

Span of Control

How many employees can a manager efficiently and effectively manage? That's what **span of control** is all about. The traditional view was that managers could not—and should not—directly supervise more than five or six subordinates. Determining the span of control is important because to a large degree, it determines the number of levels and managers in an organization—an important consideration in how efficient an organization will be. All other things being equal, the wider or larger the span, the more efficient an organization is. Here's why.

Assume two organizations, both of which have approximately 4,100 employees. As Exhibit 10-6 shows, if one organization has a span of four and the other a span of eight, the organization with the wider span will have two fewer levels and approximately 800 fewer managers. At an average manager's salary of $42,000 a year, the organization with the wider span would save over $33 million a year! Obviously, wider spans are more efficient in terms of cost. However, at some point, wider spans may reduce effectiveness if employee performance worsens because managers no longer have the time to lead effectively.

TODAY'S VIEW. The contemporary view of span of control recognizes that there is no magic number. Many factors influence the number of employees that a manager can efficiently and effectively manage. These factors include the skills and abilities of the manager and the

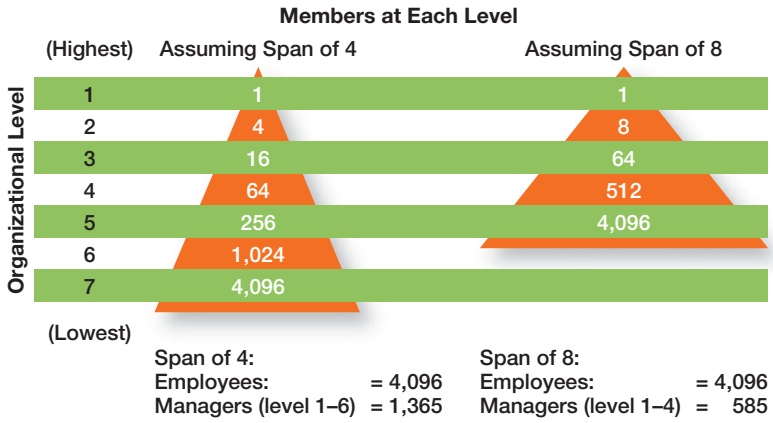


EXHIBIT 10-6
Contrasting Spans of Control

staff authority
Positions with some authority that have been created to support, assist, and advise those holding line authority

responsibility
The obligation or expectation to perform any assigned duties

unity of command
The management principle that each person should report to only one manager

span of control
The number of employees a manager can efficiently and effectively manage

employees, and the characteristics of the work being done. For instance, managers with well-trained and experienced employees can function well with a wider span. Other contingency variables that determine the appropriate span include similarity and complexity of employee tasks, the physical proximity of subordinates, the degree to which standardized procedures are in place, the sophistication of the organization's information system, the strength of the organization's culture, and the preferred style of the manager.[13]

The trend in recent years has been toward larger spans of control, which is consistent with managers' efforts to speed up decision making, increase flexibility, get closer to customers, empower employees, and reduce costs. Managers are beginning to recognize that they can handle a wider span when employees know their jobs well and when those employees understand organizational processes. For instance, at PepsiCo's Gamesa cookie plant in Mexico, 56 employees now report to each manager. However, to ensure that performance doesn't suffer because of these wider spans, employees were thoroughly briefed on company goals and processes. Also, new pay systems reward quality, service, productivity, and teamwork.[14]

Centralization and Decentralization

One of the questions that needs to be answered when organizing is "At what organizational level are decisions made?" **Centralization** is the degree to which decision making takes place at upper levels of the organization. If top managers make key decisions with little input from below, then the organization is more centralized. On the other hand, the more that lower-level employees provide input or actually make decisions, the more **decentralization** there is. Keep in mind that centralization-decentralization is not an either-or concept. The decision is relative, not absolute—that is, an organization is never completely centralized or decentralized.

Early management writers proposed that the degree of centralization in an organization depended on the situation.[15] Their goal was the optimum and efficient use of employees. Traditional organizations were structured in a pyramid, with power and authority concentrated near the top of the organization. Given this structure, historically centralized decisions were the most prominent, but organizations today have become more complex and responsive to dynamic changes in their environments. As such, many managers believe that decisions need to be made by those individuals closest to the problems, regardless of their organizational level. In fact, the trend over the past several decades—at least in U.S. and Canadian organizations—has been a movement toward more decentralization in organizations.[16] Exhibit 10-7 lists some of the factors that affect an organization's use of centralization or decentralization.[17]

TODAY'S VIEW. Today, managers often choose the amount of centralization or decentralization that will allow them to best implement their decisions and achieve organizational goals.[18] What works in one organization, however, won't necessarily work in another, so managers must determine the appropriate amount of decentralization for each organization and work units within it.

EXHIBIT 10-7
Centralization or Decentralization

More Centralization	More Decentralization
• Environment is stable. • Lower-level managers are not as capable or experienced at making decisions as upper-level managers. • Lower-level managers do not want a say in decisions. • Decisions are relatively minor. • Organization is facing a crisis or the risk of company failure. • Company is large. • Effective implementation of company strategies depends on managers retaining say over what happens.	• Environment is complex, uncertain. • Lower-level managers are capable and experienced at making decisions. • Lower-level managers want a voice in decisions. • Decisions are significant. • Corporate culture is open to allowing managers a say in what happens. • Company is geographically dispersed. • Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

As organizations have become more flexible and responsive to environmental trends, there's been a distinct shift toward decentralized decision making.[19] This trend, also known as **employee empowerment**, gives employees more authority (power) to make decisions. (We'll address this concept more thoroughly in our discussion of leadership in Chapter 17.) In large companies especially, lower-level managers are "closer to the action" and typically have more detailed knowledge about problems and how best to solve them than do top managers. For instance, at Terex Corporation, CEO Ron Defeo, a big proponent of decentralized management, tells his managers that, "You gotta run the company you're given." And they have! The company generated revenues of over $4 billion in 2009 with about 16,000 employees worldwide and a small corporate headquarters staff.[20] Another example can be seen at the General Cable plant in Piedras Negras, Coahuila, Mexico, where employees are responsible for managing nearly 6,000 active raw material SKUs (stock-keeping units) in inventory and on the plant floor. And company managers continue to look for ways to place more responsibility in the hands of workers.[21]

by the numbers[24]

34 percent of HR executives said that they had retrained employees for new positions over the last six months.

68 percent of organizations say they've increased centralization in the last five years.

51 percent of white-collar workers say that teleworking is a good idea.

42 percent of U.S. companies offer some form of telework arrangement.

55 percent of workers believe that their work quality is perceived the same when working remotely as when working in the office.

Formalization

Formalization refers to how standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures. In highly formalized organizations, there are explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes. Employees have little discretion over what's done, when it's done, and how it's done. However, where formalization is low, employees have more discretion in how they do their work.

TODAY'S VIEW. Although some formalization is necessary for consistency and control, many organizations today rely less on strict rules and standardization to guide and regulate employee behavior. For instance, consider the following situation:

> A customer comes into a branch of a large national drug store and drops off a role of film for same-day developing 37 minutes after the store policy cut-off time. Although the sales clerk knows he's supposed to follow rules, he also knows he could get the film developed with no problem and wants to accommodate the customer. So he accepts the film, violating policy, hoping that his manager won't find out.[22]

Has this employee done something wrong? He did "break" the rule. But by "breaking" the rule, he actually brought in revenue and provided good customer service.

Considering there are numerous situations where rules may be too restrictive, many organizations have allowed employees some latitude, giving them sufficient autonomy to make those decisions that they feel are best under the circumstances. It doesn't mean throwing out all organizational rules because there *will* be rules that are important for employees to follow—and these rules should be explained so employees understand why it's important to adhere to them. But for other rules, employees may be given some leeway.[23]

Mechanistic and Organic Structures

10.2 LEARNING OUTCOME
Contrast mechanistic and organic structures.

Stocking extra swimsuits in retail stores near water parks seems to make sense, right? And if size 11 women's shoes have been big sellers in Chicago, then stocking more size 11s seems to be a no-brainer. After suffering through 16 months of declining same-store sales, Macy's CEO Terry Lundgren decided it was time to restructure the organization to

centralization
The degree to which decision making is concentrated at upper levels of the organization

decentralization
The degree to which lower-level employees provide input or actually make decisions

employee empowerment
Giving employees more authority (power) to make decisions

formalization
How standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures

EXHIBIT 10-8
Mechanistic Versus Organic Organizations

Mechanistic	Organic
• High specialization	• Cross-functional teams
• Rigid departmentalization	• Cross-hierarchical teams
• Clear chain of command	• Free flow of information
• Narrow spans of control	• Wide spans of control
• Centralization	• Decentralization
• High formalization	• Low formalization

make sure that these types of smart retail decisions are made.[25] He's making the company both more centralized and more locally focused. Although that may seem a contradiction, the redesign seems to be working. Lundgren centralized Macy's purchasing, planning, and marketing operations from seven regional offices to one office at headquarters in New York. He also replaced regional merchandise managers with more local managers—each responsible for a dozen stores—who spend more time figuring out what's selling. Designing (or redesigning) an organizational structure that works is important. Basic organizational design revolves around two organizational forms that are described in Exhibit 10-8.[26]

The **mechanistic organization** (or bureaucracy) was the natural result of combining the six elements of structure. Adhering to the chain-of-command principle ensured the existence of a formal hierarchy of authority, with each person controlled and supervised by one superior. Keeping the span of control small at increasingly higher levels in the organization created tall, impersonal structures. As the distance between the top and the bottom of the organization expanded, top management would increasingly impose rules and regulations. Because top managers couldn't control lower-level activities through direct observation and ensure the use of standard practices, they substituted rules and regulations. The early management writers' belief in a high degree of work specialization created jobs that were simple, routine, and standardized. Further specialization through the use of departmentalization increased impersonality and the need for multiple layers of management to coordinate the specialized departments.

The **organic organization** is a highly adaptive form that is as loose and flexible as the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulations, the organic organization's loose structure allows it to change rapidly as required.[27] It has division of labor, but the jobs people do are not standardized. Employees tend to be professionals who are technically proficient and trained to handle diverse problems. They need few formal rules and little direct supervision because their training has instilled in them standards of professional conduct. For instance, a petroleum engineer doesn't need to follow specific procedures on how to locate oil sources miles offshore. The engineer can solve most problems alone or after conferring with colleagues. Professional standards guide his or her behavior. The organic organization is low in centralization so that the professional can respond quickly to problems and because top-level managers cannot be expected to possess the expertise to make necessary decisions.

LEARNING OUTCOME 10.3
Discuss the contingency factors that favor either the mechanistic model or the organic model of organizational design.

Contingency Factors Affecting Structural Choice

When Carol Bartz took over the CEO position at Yahoo! from cofounder Jerry Yang, she found a company "hobbled by slow decision making and ineffective execution on those decisions."[28] Bartz said, "There's plenty that has bogged this company down." For a company that was once the darling of Web search, Yahoo! seemed to have lost its way, a serious misstep in an industry where change is continual and rapid. Bartz implemented a new streamlined structure that was intended to "make the company a

lot faster on its feet." Top managers typically put a lot of thought into designing an appropriate organizational structure. What that appropriate structure is depends on four contingency variables: the organization's strategy, size, technology, and degree of environmental uncertainty.

Strategy and Structure

An organization's structure should facilitate goal achievement. Because goals are an important part of the organization's strategies, it's only logical that strategy and structure are closely linked. Alfred Chandler initially researched this relationship.[29] He studied several large U.S. companies and concluded that changes in corporate strategy led to changes in an organization's structure that support the strategy.

Research has shown that certain structural designs work best with different organizational strategies.[30] For instance, the flexibility and free-flowing information of the organic structure works well when an organization is pursuing meaningful and unique innovations. The mechanistic organization with its efficiency, stability, and tight controls works best for companies wanting to tightly control costs.

Size and Structure

There's considerable evidence that an organization's size affects its structure.[31] Large organizations—typically considered to be those with more than 2,000 employees—tend to have more specialization, departmentalization, centralization, and rules and regulations than do small organizations. However, once an organization grows past a certain size, size has less influence on structure. Why? Essentially, once there are around 2,000 employees, it's already fairly mechanistic. Adding another 500 employees won't impact the structure much. On the other hand, adding 500 employees to an organization that has only 300 employees is likely to make it more mechanistic.

Technology and Structure

Every organization uses some form of technology to convert its inputs into outputs. For instance, workers at Whirlpool's Manaus, Brazil, facility build microwave ovens and air conditioners on a standardized assembly line. Employees at FedEx Kinko's Office and Print Services produce custom design and print jobs for individual customers.

Typically organizations with a routine technology adapt a mechanistic structure and those with a nonroutine technology adapt an organic structure. With a more routine technology for transforming inputs into outputs, firms such as insurance companies and banks most often have a mechanistic structure. The bank teller shown here, serving a customer at Nuestro Banco, processes routine transactions such as cashing checks and making deposits, withdrawals, and loan payments. The bank's structure is characterized by rules and regulations, a high degree of work specialization, a formal hierarchy, a small span of control, and departments organized by functions.

mechanistic organization
An organizational design that's rigid and tightly controlled

organic organization
An organizational design that's highly adaptive and flexible

"On the wall behind the desk of Andrea Jung, the CEO of Avon, a beauty company, hangs a plaque labeled 'The Evolution of Leadership.' It displays four footprints: that of an ape, then a barefoot man, then a man's shoe and finally a high-heeled shoe."[35] It's an interesting symbol, and it wasn't put there by Jung. No, it was hanging in the office of the previous CEO, James Preston. As the first female CEO of Avon, Jung has held that position for a decade—the most-tenured female CEO in the *Fortune* 500. And she's faced numerous managerial challenges head-on. She clearly understands the importance of organizational design in helping her global company prosper in good times and bad. That aspect of her job is particularly challenging given the fact that 70 percent of the company's sales are in developing countries. But she's made the tough decisions to restructure, refocus, and redefine the company's strategies and created an organizational design to help it continue its success as the leading women's beauty products company.

And employees at Bayer's facility in Karachi, Pakistan, are involved in producing pharmaceuticals on a continuous-flow production line.

The initial research on technology's effect on structure can be traced to Joan Woodward, who studied small manufacturing firms in southern England to determine the extent to which structural design elements were related to organizational success.[32] She couldn't find any consistent pattern until she divided the firms into three distinct technologies that had increasing levels of complexity and sophistication. The first category, **unit production**, described the production of items in units or small batches. The second category, **mass production**, described large-batch manufacturing. Finally, the third and most technically complex group, **process production**, included continuous-process production. A summary of her findings is shown in Exhibit 10-9.

Other studies also have shown that organizations adapt their structures to their technology depending on how routine their technology is for transforming inputs into outputs.[33] In general, the more routine the technology, the more mechanistic the structure can be, and organizations with more nonroutine technology are more likely to have organic structures.[34]

Environmental Uncertainty and Structure

Some organizations face stable and simple environments with little uncertainty; others face dynamic and complex environments with a lot of uncertainty. Managers try to minimize environmental uncertainty by adjusting the organization's structure.[36] In stable and simple environments, mechanistic designs can be more effective. On the other hand, the greater the uncertainty, the more an organization needs the flexibility of an organic design. For example, the uncertain nature of the oil industry means that oil companies need to be flexible. Soon after being named CEO of Royal Dutch Shell PLC, Jeroen van der Veer streamlined the corporate structure to counteract some of the industry volatility. One thing he did was eliminate the company's cumbersome, overly analytical process of making deals with OPEC countries and other major oil producers.[37]

TODAY'S VIEW. The evidence on the environment-structure relationship helps explain why so many managers today are restructuring their organizations to be lean, fast, and flexible. Worldwide economic downturns, global competition, accelerated product innovation by competitors, and increased demands from customers for high quality and faster deliveries are examples of dynamic environmental forces.

EXHIBIT 10-9
Woodward's Findings on Technology and Structure

	Unit Production	Mass Production	Process Production
Structural characteristics:	Low vertical differentiation	Moderate vertical differentiation	High vertical differentiation
	Low horizontal differentiation	High horizontal differentiation	Low horizontal differentiation
	Low formalization	High formalization	Low formalization
Most effective structure:	Organic	Mechanistic	Organic

Mechanistic organizations are not equipped to respond to rapid environmental change and environmental uncertainty. As a result, we're seeing organizations become more organic.

Traditional Organizational Designs

10.4 LEARNING OUTCOME
Describe traditional organizational designs.

They're a big hit with the elementary-school crowd and millions of them have been sold every month. Ever heard of Silly Bandz?[38] If you're over the age of 10, you probably haven't! These colorful rubber bands retain the shapes they're twisted in and kids love them. The small business that created Silly Bands—BCP Imports of Toledo, Ohio—increased its employee count from 20 to 200 over the last year and recently added 22 phone lines to keep up with inquiries. The person behind those organizing decisions is company president Robert Croak. In making structural decisions, managers have some common designs from which to choose. In this chapter, we're going to describe the traditional organizational designs. In the next chapter, we'll be looking at more contemporary types of organizational designs.

When designing a structure, managers may choose one of the traditional organizational designs. These structures tend to be more mechanistic in nature. A summary of the strengths and weaknesses of each can be found in Exhibit 10-10.

Simple Structure

Most companies start as entrepreneurial ventures using a **simple structure**, which is an organizational design with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.[39] As employees are added, however, most don't remain as simple structures. The structure tends to become more specialized and formalized. Rules and regulations are introduced, work becomes specialized, departments are created, levels of management are added, and the organization becomes increasingly bureaucratic. At this point, managers might choose a functional structure or a divisional structure.

Simple Structure

- Strengths: Fast; flexible; inexpensive to maintain; clear accountability.
- Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

Functional Structure

- Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment); employees are grouped with others who have similar tasks.
- Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for the overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure

- Strengths: Focuses on results—division managers are responsible for what happens to their products and services.
- Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.

EXHIBIT 10-10
Traditional Organizational Designs

unit production
The production of items in units or small batches

mass production
The production of items in large batches

process production
The production of items in continuous processes

simple structure
An organizational design with low departmentalization, wide spans of control, centralized authority, and little formalization

Functional Structure

A **functional structure** is an organizational design that groups similar or related occupational specialties together. You can think of this structure as functional departmentalization applied to the entire organization.

Divisional Structure

The **divisional structure** is an organizational structure made up of separate business units or divisions.[40] In this structure, each division has limited autonomy, with a division manager who has authority over his or her unit and is responsible for performance. In divisional structures, however, the parent corporation typically acts as an external overseer to coordinate and control the various divisions, and often provides support services such as financial and legal. Walmart, for example, has two divisions: retail (Walmart Stores, International, Sam's Clubs, and others) and support (distribution centers).

Hopefully, you've seen in this chapter that organizational structure and design (or redesign) are important managerial tasks. Also, we hope that you recognize that organizing decisions aren't only important for upper-level managers. Managers at all levels may have to deal with work specialization or authority or span of control decisions. In the next chapter, we'll continue our discussion of the organizing function by looking at contemporary organizational designs.

functional structure
An organizational design that groups together similar or related occupational specialties

divisional structure
An organizational structure made up of separate, semiautonomous units or divisions

Let's Get Real:

My Response *to A Manager's Dilemma, page 264*

With Lechleiter's revamping of the company's operational structure, he needs to consider how to organize each of these departments.

- Create a divisional structure for each of the five global business units.
- Utilize a more organic structure for the teams that will be developing the new products in the product research and development center.
- Employ a more mechanistic structure for those associates who will be driving the products through the mandatory approval process.
- Create cross-functional teams across the business units to share best practices and key learning to increase the product development process.

What Would You Do?

Cindy Brewer
Customer Contact Channel Manager
Sears Holdings Corporation
Loves Park, IL

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 10.1

Describe six key elements in organizational design.

The key elements in organizational design are work specialization, chain of command, span of control, departmentalization, centralization-decentralization, and formalization. Traditionally, work specialization was viewed as a way to divide work activities into separate job tasks. Today's view is that it is an important organizing mechanism but it can lead to problems. The chain of command and its companion concepts—authority, responsibility, and unity of command—were viewed as important ways of maintaining control in organizations. The contemporary view is that they are less relevant in today's organizations. The traditional view of span of control was that managers should directly supervise no more than five to six individuals. The contemporary view is that the span of control depends on the skills and abilities of the manager and the employees and on the characteristics of the situation.

The various forms of departmentalization are as follows: *Functional* groups jobs by functions performed; *product* groups jobs by product lines; *geographical* groups jobs by geographical region; *process* groups jobs on product or customer flow; and *customer* groups jobs on specific and unique customer groups.

Authority refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it. The acceptance view of authority says that authority comes from the willingness of subordinates to accept it. Line authority entitles a manager to direct the work of an employee. Staff authority refers to functions that support, assist, advise, and generally reduce some of managers' informational burdens. Responsibility is the obligation or expectation to perform assigned duties. Unity of command states that a person should report to only one manager. Centralization-decentralization is a structural decision about who makes decisions—upper-level managers or lower-level employees. Formalization concerns the organization's use of standardization and strict rules to provide consistency and control.

LEARNING OUTCOME 10.2

Contrast mechanistic and organic structures.

A mechanistic organization is a rigid and tightly controlled structure. An organic organization is highly adaptive and flexible.

LEARNING OUTCOME 10.3

Discuss the contingency factors that favor either the mechanistic model or the organic model of organizational design.

An organization's structure should support the strategy. If the strategy changes, the structure also should change. An organization's size can affect its structure up to a certain point. Once an organization reaches a certain size (usually around 2,000 employees), it's fairly mechanistic. An organization's technology can affect its structure. An organic structure is most effective with unit production and process production technology. A mechanistic structure is most effective with mass production technology. The more uncertain an organization's environment, the more it needs the flexibility of an organic design.

LEARNING OUTCOME 10.4

Describe traditional organizational designs.

A simple structure is one with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization. A functional structure groups similar or related occupational specialties together. A divisional structure is made up of separate business units or divisions.

mymanagementlab To check your understanding of learning outcomes 10.1 – 10.4 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Discuss the traditional and contemporary views of each of the six key elements of organizational design.
2. Can an organization's structure be changed quickly? Why or why not? Should it be changed quickly? Explain.
3. Contrast mechanistic and organic organizations.
4. Would you rather work in a mechanistic or an organic organization? Why?
5. Explain the contingency factors that affect organizational design.
6. Contrast the three traditional organizational designs.
7. With the availability of advanced information technology that allows an organization's work to be done anywhere at any time, is organizing still an important managerial function? Why or why not?
8. Researchers are now saying that efforts to simplify work tasks actually have negative results for both companies and their employees. Do you agree? Why or why not?

PREPARING FOR: My Career

ETHICS DILEMMA

"As British Petroleum (BP) continues to try to stop the oil gushing into the Gulf of Mexico, the energy giant is also dealing with a public relations nightmare."[41] One step the company has taken is buying the Web search terms such as "oil spill" and "oil spill claims" on Google and Yahoo! A company spokeswoman says "the strategy is to assist those who are most impacted and help them find the right forms and the right people quickly and effectively." One consultant who handles crisis management says, "I do it with all of my clients, because if we aren't buying the terms, somebody else is." Another individual who teaches crisis management says, "Most companies that are smart are buying relevant search terms to increase their visibility on the Internet. As long as they are providing factual and timely information in a transparent way and doing interviews with other media sources as well, I don't see any reason why they shouldn't be buying search terms." What do you think? Is this even an ethical issue? (Not the ramifications of the spill itself, but purchasing the search terms.) What ethical concerns do you see in BP doing this? What stakeholders might be affected by BP's actions (buying the search terms)? In what ways might these stakeholders be affected?

SKILLS EXERCISE

Developing Your Empowering People (Delegating) Skill

About the Skill

Managers get things done through other people. Because there are limits to any manager's time and knowledge, effective managers need to understand how to delegate.[42] Delegation is the assignment of authority to another person to carry out specific duties. It allows an employee to make decisions. Delegation should not be confused with participation. In participative decision making, authority is shared. In delegation, employees make decisions on their own.

Steps in Practicing the Skill

A number of actions differentiate the effective delegator from the ineffective delegator. The following five behaviors are used by effective delegators.

1. *Clarify the assignment.* Determine *what* is to be delegated and *to whom.* You need to identify the person who's most capable of doing the task and then determine whether he or she has the time and motivation to do the task. If you have a willing and able employee, it's your responsibility to provide clear information on what is being delegated, the results you expect, and any time or performance expectations you may have. Unless there's an overriding need to adhere to specific methods, you should delegate only the results expected. Get agreement on what is to be

done and the results expected, but let the employee decide the best way to complete the task.

2. *Specify the employee's range of discretion.* Every situation of delegation comes with constraints. Although you're delegating to an employee the authority to perform some task or tasks, you're not delegating unlimited authority. You are delegating authority to act on certain issues within certain parameters. You need to specify what those parameters are so that employees know, without any doubt, the range of their discretion.
3. *Allow the employee to participate.* One of the best ways to decide how much authority will be necessary to accomplish a task is to allow the employee who will be held accountable for that task to participate in that decision. Be aware, however, that allowing employees to participate can present its own set of potential problems as a result of employees' self-interests and biases in evaluating their own abilities.
4. *Inform others that delegation has occurred.* Delegation shouldn't take place behind the scenes. Not only do the manager and employee need to know specifically what has been delegated and how much authority has been given, but so does anyone else who's likely to be affected by the employee's decisions and actions. This includes people inside and outside the organization. Essentially, you need to communicate what has been delegated (the task and amount of authority) and to whom.
5. *Establish feedback channels.* To delegate without establishing feedback controls is inviting problems. The establishment of controls to monitor the employee's performance increases the likelihood that important problems will be identified and that the task will be completed on time and to the desired specifications. Ideally, these controls should be determined at the time of the initial assignment. Agree on a specific time for the completion of the task and then set progress dates when the employee will report back on how well he or she is doing and any major problems that may have arisen. These controls can be supplemented with periodic checks to ensure that authority guidelines aren't being abused, organizational policies are being followed, proper procedures are being met, and the like.

Practicing the Skill

Read through the following scenario. Write a paper describing how you would handle the situation described. Be sure to refer to the five behaviors described for delegating.

Scenario

Ricky Lee is the manager of the contracts group of a large regional office supply distributor. His boss, Anne Zumwalt, has asked him to prepare by the end of the month the department's new procedures manual that will outline the steps followed in negotiating contracts with office products manufacturers who supply the organization's products. Because Ricky has another major project he's working on, he went to Anne and asked her if it would be possible to assign the rewriting of the procedures manual to Bill Harmon, one of his employees who's worked in the contracts group for about three years. Anne said she had no problems with Ricky reassigning the project as long as Bill knew the parameters and the expectations for the completion of the project. Ricky is preparing for his meeting in the morning with Bill regarding this assignment.

WORKING TOGETHER

Team Exercise

An organization chart can be a useful tool for understanding certain aspects of an organization's structure. Form small groups of three to four individuals. Among yourselves, choose an organization with which one of you is familiar (where you work, a student organization to which you belong, your college or university, etc.). Draw an organization chart of this organization. Be careful to show departments (or groups) and especially be careful to get the chain of command correct. Be prepared to share your chart with the class.

MY TURN TO BE A MANAGER

- Find three different examples of an organizational chart. (Company's annual reports are a good place to look.) In a report, describe each of these. Try to decipher the organization's use of organizational design elements, especially departmentalization, chain of command, centralization-decentralization, and formalization.
- Survey at least 10 different managers as to how many employees they supervise. Also ask them whether they feel they could supervise more employees or whether they feel the number they supervise is too many. Graph your survey results and write a report describing what you found. Draw some conclusions about span of control.

- Using the organizational chart you created in the team exercise, redesign the structure. What structural changes might make this organization more efficient and effective? Write a report describing what you would do and why. Be sure to include an example of the original organizational chart as well as a chart of your proposed revision of the organizational structure.
- Steve's and Mary's suggested readings: Gary Hamel, *The Future of Management* (Harvard Business School Press, 2007); Thomas Friedman, *The World Is Flat 3.0* (Picador, 2007); Harold J. Leavitt, *Top Down: Why Hierarchies Are Here to Stay and How to Manage Them More Effectively* (Harvard Business School Press, 2005); and Thomas W. Malone, *The Future of Work* (Harvard Business School Press, 2004).
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Well Do I Handle Ambiguity? What Type of Organizational Structure Do I Prefer? Do I Like Bureaucracy? How Good Am I at Playing Politics? How Willing Am I to Delegate? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Ask Chuck

Effective communication with customers plays an important role in Charles Schwab's customer service strategy. Managers of the company's offices receive daily customer feedback reports and empower employees to respond quickly to customer concerns.

The Charles Schwab Corporation (Charles Schwab) is a San Francisco-based financial services company.[43] Like many companies in that industry, Charles Schwab struggled during the economic recession.

Founded in 1971 by its namesake as a discount brokerage, the company has now "grown up" into a full-service traditional brokerage firm, with more than 300 offices in some 45 states and in London and Hong Kong. It still offers discount brokerage services, but also financial research, advice, and planning; retirement plans; investment management; and proprietary financial products including mutual funds, mortgages, CDs, and other banking products through its Charles Schwab Bank unit. However, its primary business is still making stock trades for investors who make their own financial decisions. The company has a reputation for being conservative, which helped it avoid the financial meltdown suffered by other investment firms. Founder Charles R. Schwab has a black bowling ball perched on his desk. "It's a memento of the long-forgotten bubble of 1961, when shares of bowling-pin companies, shoemakers, chalk manufacturers, and lane operators were thought to be can't-miss plays on the limitless potential of suburbia—and turned out to be duds." He keeps the ball as a reminder not to "buy into hype or take excessive risks."

Like many companies, Charles Schwab is fanatical about customer service. By empowering front-line employees to respond fast to customer issues and concerns, Cheryl Pasquale, a manager at one of Schwab's branches, is on the front line of Schwab's efforts to prosper in a "resource-challenged economy." Every workday morning, she pulls up a customer feedback report for her branch generated by a brief survey the investment firm e-mails out daily. The report allows her to review how well her six financial consultants handled the previous day's transactions. She's able to see comments of customers who gave both high and low marks and whether a particular transaction garnered praise or complaint. On one particular day, she notices that several customers commented on how difficult it was to use the branch's in-house information kiosks. "She decides

she'll ask her team for insights about this in their weekly meeting." One thing that she pays particular attention to is a "manager alert—a special notice triggered by a client who has given Schwab a poor rating for a delay in posting a transaction to his account." And she's not alone. Every day, Pasquale and the managers at all the company's branches receive this type of customer feedback.

Discussion Questions

1. Describe and evaluate what Charles Schwab is doing.
2. How might the company's culture of not buying into hype and not taking excessive risks affect its organizational structural design?
3. What structural implications—good and bad—might Schwab's intense focus on customer feedback have?
4. Do you think this arrangement would work for other types of organizations? Why or why not?

CASE APPLICATION 2

A New Kind of Structure

Admit it. Sometimes the projects you're working on (school, work, or both) can get pretty boring and monotonous. Wouldn't it be great to have a magic button you could push to get someone else to do that boring, time-consuming stuff? At Pfizer, that "magic button" is a reality for a large number of employees.[44]

As a global pharmaceutical company, Pfizer is continually looking for ways to help employees be more efficient and effective. The company's senior director of organizational effectiveness found that the "Harvard MBA staff we hired to develop strategies and innovate were instead Googling and making PowerPoints." Indeed, internal studies conducted to find out just how much time its valuable talent was spending on menial tasks was startling. The average Pfizer employee was spending 20 percent to 40 percent of his or her time on support work (creating documents, typing notes, doing research, manipulating data, scheduling meetings) and only 60 percent to 80 percent on knowledge work (strategy, innovation, networking, collaborating, critical thinking). And the problem wasn't just at lower levels. Even the highest-level employees were affected. Take, for instance, David Cain, an executive director for global engineering. He enjoys his job—assessing environmental real estate risks, managing facilities, and controlling a multimillion-dollar budget. But he didn't so much enjoy having to go through spreadsheets and put together PowerPoints. Now, however, with Pfizer's "magic button," those tasks are passed off to individuals outside the organization.

Just what is this "magic button?" Originally called the Office of the Future (OOF), the renamed PfizerWorks allows employees to shift tedious and time-consuming tasks with the click of a single button on their computer desktop. They describe what they need on an online form, which is then sent to one of two Indian service-outsourcing firms. When a request is received, a team member in India calls the Pfizer employee to clarify what's needed and by when. The team member then e-mails back a cost specification for the requested work. If the Pfizer employee decides to proceed, the costs involved are charged to the employee's department. About this unique arrangement, Cain said that he relishes working with what he prefers to call his "personal consulting organization."

The number 66,500 illustrates just how beneficial PfizerWorks has been for the company. That's the number of work hours estimated to have been saved by employees who've used PfizerWorks. What about Joe Cain's experiences? When he gave the Indian team a complex project researching strategic actions that worked when consolidating company facilities, the team put the report together in a month, something that would have taken him six months to do alone. He says, "Pfizer pays me not to work tactically, but to work strategically."

Discussion Questions

1. Describe and evaluate what Pfizer is doing with its PfizerWorks.
2. What structural implications—good and bad—does this approach have? (Think in terms of the six organizational design elements.)
3. Do you think this arrangement would work for other types of organizations? Why or why not? What types of organizations might it also work for?
4. What role do you think organizational structure plays in an organization's efficiency and effectiveness? Explain.

11 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Richard "Dickie" Townley

Sr. Manager Product Terminals and Marketing
Holly Energy Partners, L.P.
Artesia, NM

MY JOB:
I'm the senior manager of product terminals and marketing for Holly Energy Partners, L.P. My primary responsibility is to oversee the day-to-day operation of multi-state fossil fuel product terminals.

BEST PART OF MY JOB:
Being part of an industry that is vital to the economic stability of the country.

Adaptive Organizational Design

LEARNING OUTCOMES

11.1 **Describe** contemporary organizational designs. *page 288*

11.2 **Discuss** how organizations organize for collaboration. *page 293*

11.3 **Explain** flexible work arrangements used by organizations. *page 297*

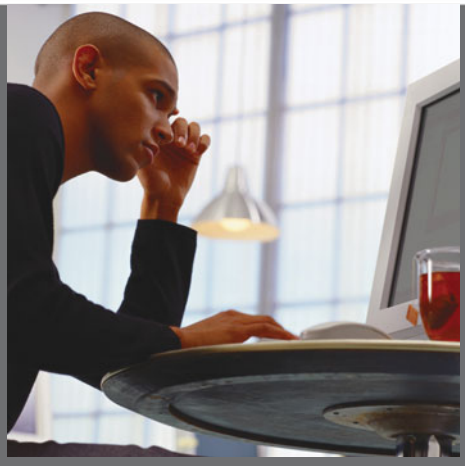
11.4 **Discuss** organizing issues associated with a contingent workforce. *page 299*

11.5 **Describe** today's organizational design challenges. *page 300*

WORST PART OF MY JOB:
Working in an industry that has a black eye for its environmental impact, and the general public not understanding the efforts being taken by the industry to mitigate the environmental impact while still providing the energy the country needs.

BEST MANAGEMENT ADVICE EVER RECEIVED:
Value what you do, and add value by what you do.

A Manager's Dilemma



They're individuals you might never have thought of as being part of an organization's structure, but for many organizations, volunteers provide a much-needed source of labor.[1] Maybe you've volunteered at a Habitat build, a homeless shelter, or some nonprofit organization. However, what if the volunteer assignment was at a for-profit business and the job description read like this: "Spend a few hours a day, at your computer, supplying answers online to customer questions about technical matters like how to set up an Internet home network or how to program a new high-definition television," all for no pay. At Verizon's high-speed fiber optic Internet, television, and telephone service, "volunteers" do just that. Many large corporations, start-up companies, and venture capitalists are betting that this "emerging corps of Web-savvy helpers will transform the field of customer service."

As director of Verizon's e-commerce unit, Mark Studness was familiar with Web sites where users offered tips and answered questions. His challenge? Find a way to use that potential resource for customer service. His solution? "Super" or passionate users—that is, users who provided the best answers and dialogue in Web forums. How should Verizon's managers deal with the structural challenges of this unique type of work arrangement?

What Would You Do?

Welcome to the fascinating world of organizational structure and design in the twenty-first century! Did you ever consider that a business might actually have work tasks completed by someone other than employees . . . for free? Mark Studness and Verizon were open to trying new ways to do what they're in business to do and the unusual structural experiment seems to be working well. He describes the company-sponsored customer-service site as a "very productive tool, partly because it absorbs many thousands of questions that would otherwise be expensive calls to a Verizon call center."

In the last chapter, we introduced the basic concepts of traditional organizational design including the six building blocks of an organization's structure: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization. In this chapter, we're going to explore contemporary aspects of organizational design as organizations adapt to the demands of today's environment. We're going to first look at some contemporary organizational designs and then move on to discussing how organizations are coping with those demands through collaborative work efforts, flexible work arrangements, and a contingent workforce. We'll wrap up the chapter by describing some organizational design challenges facing today's managers.

LEARNING OUTCOME
Describe contemporary organizational designs.

11.1

Contemporary Organizational Designs

Microsoft's Windows 7 was the outcome of a three-year project marked by close collaboration among the thousands of people working on various aspects of the product.[2] This approach contrasted sharply with the development of Windows Vista, where the development team had evolved into "a rigid set of silos—each responsible for specific technical features—that didn't share their plans widely." With Vista, programming code created by each group might have worked fine on its own, but it caused technical problems when integrated with code created by other groups. Those design issues, as well as internal communications breakdowns, contributed to numerous product delays and defects. CEO Steve Ballmer was adamant about not repeating that mistake. Thus, to "rebuild Windows, Microsoft razed walls"—that is, organizational structure walls that acted as barriers and impediments to efficient and effective work.

EXHIBIT 11-1
Contemporary Organizational Designs

Team Structure

- What it is: A structure in which the entire organization is made up of work groups or teams.
- Advantages: Employees are more involved and empowered.
  Reduced barriers among functional areas.
- Disadvantages: No clear chain of command.
  Pressure on teams to perform.

Matrix-Project Structure

- What it is: Matrix is a structure that assigns specialists from different functional areas to work on projects who then return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- Advantages: Fluid and flexible design that can respond to environmental changes.
  Faster decision making.
- Disadvantages: Complexity of assigning people to projects.
  Task and personality conflicts.

Boundaryless Structure

- What it is: A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes *virtual* and *network* types of organizations.
- Advantages: Highly flexible and responsive.
  Utilizes talent wherever it's found.
- Disadvantages: Lack of control.
  Communication difficulties.

Learning Structure

- What it is: A structure in which employees continually acquire and share new knowledge and apply that knowledge.
- Advantages: Sharing of knowledge throughout organization. Sustainable source of competitive advantage.
- Disadvantages: Reluctance on part of employees to share knowledge for fear of losing their power.
  Large numbers of experienced employees on the verge of retiring.

Like Steve Ballmer, many managers are finding that the traditional designs (discussed on pp. 277–278) often aren't appropriate for today's increasingly dynamic and complex environment. Instead, organizations need to be lean, flexible, and innovative; that is, they need to be more organic. So managers are finding creative ways to structure and organize work. These contemporary designs include team structures, matrix and project structures, boundaryless organizations, and learning organizations. (See Exhibit 11-1 for a summary of these designs.)

Team Structures

Larry Page and Sergey Brin, cofounders of Google, created a corporate structure that "tackles most big projects in small, tightly focused teams."[3] A **team structure** is one in which the entire organization is made up of work teams that do the organization's work.[4] In this structure, employee empowerment is crucial because no line of managerial authority flows from top to bottom. Rather, employee teams design and do work in the way they think is best, but the teams are also held responsible for all work performance results in their respective areas.

team structure
An organizational structure in which the entire organization is made up of work teams

In large organizations, the team structure complements what is typically a functional or divisional structure and allows the organization to have the efficiency of a bureaucracy *and* the flexibility that teams provide. Companies such as Amazon, Boeing, Hewlett-Packard, Louis Vuitton, Motorola, and Xerox, for instance, extensively use employee teams to improve productivity.

Matrix and Project Structures

Other popular contemporary designs are the matrix and project structures. The **matrix structure** assigns specialists from different functional departments to work on projects being led by a project manager. (See Exhibit 11-2.) One unique aspect of this design is that it creates a *dual chain of command* because employees in a matrix organization have two managers: their functional area manager and their product or project manager, who share authority. The project manager has authority over the functional members who are part of his or her project team in areas related to the project's goals. However, any decisions about promotions, salary recommendations, and annual reviews typically remain the functional manager's responsibility. The matrix design "violates" the unity of command principle, which says that each person should report to only one boss. Despite that, it can, and does, work effectively if both managers communicate regularly, coordinate work demands on employees, and resolve conflicts together.

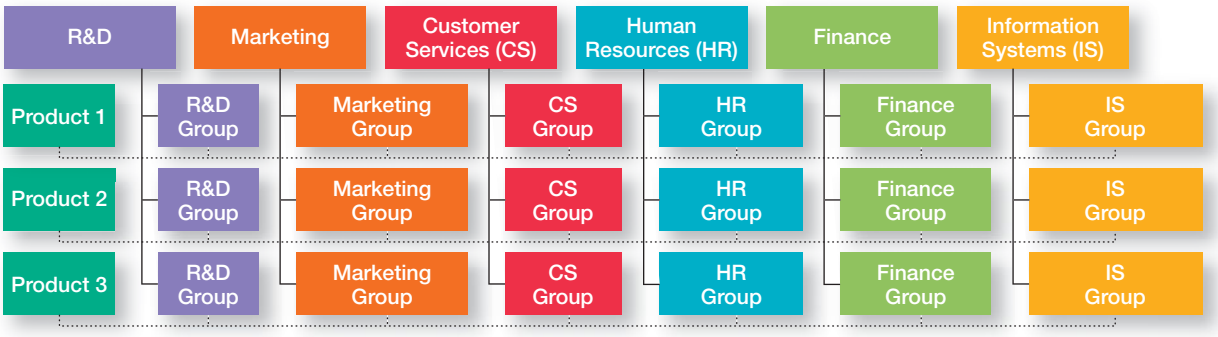
Many organizations use a **project structure**, in which employees continuously work on projects. Unlike the matrix structure, a project structure has no formal departments where employees return at the completion of a project. Instead, employees take their specific skills, abilities, and experiences to other projects. Also, all work in project structures is performed by teams of employees. For instance, at design firm IDEO, project teams form, disband, and form again as the work requires. Employees "join" project teams because they bring needed skills and abilities to that project. Once a project is completed, however, they move on to the next one.[5]

Project structures tend to be more flexible organizational designs, without the departmentalization or rigid organizational hierarchy that can slow down making decisions or taking action. In this structure, managers serve as facilitators, mentors, and coaches. They eliminate or minimize organizational obstacles and ensure that teams have the resources they need to effectively and efficiently complete their work.

The Boundaryless Organization

The Large Hadron Collider is a $6 billion particle accelerator lying in a tunnel that's 27 kilometers (17 miles) in circumference and 175 meters (574 feet) below ground near Geneva, Switzerland. "The atom smasher is so large that a brief status report lists

EXHIBIT 11-2
Example of a Matrix Organization



2,900 authors, so complex that scientists in 34 countries have readied 100,000 computers to process its data, and so fragile that a bird dropping a bread crust can short-circuit its power supply." [6] But exploiting the collider's potential to expand the frontiers of knowledge has required that scientists around the world cut across "boundaries of place, organization, and technical specialty to conduct ever more ambitious experiments."

The structural arrangement for getting work done that has developed around the massive collider is an example of another contemporary organizational design called the **boundaryless organization**, which is an organization whose design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure.[7] Former GE chairman Jack Welch coined the term because he wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. Although the idea of eliminating boundaries may seem odd, many of today's most successful organizations are finding that they can operate most effectively by remaining flexible and *un*structured: that the ideal structure for them is *not* having a rigid, bounded, and predefined structure.[8]

What do we mean by *boundaries*? There are two types: (1) *internal*—the horizontal ones imposed by work specialization and departmentalization and the vertical ones that separate employees into organizational levels and hierarchies; and (2) *external*—the boundaries that separate the organization from its customers, suppliers, and other stakeholders. To minimize or eliminate these boundaries, managers might use virtual or network structural designs.

VIRTUAL ORGANIZATIONS. Is an internship something you've ever thought about doing (or maybe have done)? How about an internship that you could do, not in a workplace cubicle, but from your couch using your computer?[9] Such virtual internships are becoming quite popular, especially with smaller and midsize companies and, of course, with online businesses. The type of work virtual interns do typically involves "researching, sales, marketing, and social-media development"—tasks that can be done anywhere with a computer and online access. Some organizations are structured in a way that allows most employees to be virtual employees.

A **virtual organization** typically consists of a small core of full-time employees and outside specialists temporarily hired as needed to work on projects.[10] An example is StrawberryFrog, a global advertising agency with offices in Amsterdam, New York, São Paulo, and Mumbai. It does its work with a relatively small administrative staff but has a global network of virtual freelance employees who are hired to work as needed on client projects. By relying on these virtual employees, the company enjoys a network of talent without all the unnecessary overhead and structural complexity.[11]

NETWORK ORGANIZATIONS. Food marketer Smart Balance Inc. helps people stay trim and lean with its heart-healthy products.[12] The company's organizational structure is also trim and lean. With only 67 employees, the company outsources almost every other organizational function including manufacturing, product distribution, and sales. Smart Balance's structural approach is one that also eliminates organizational boundaries and can be described as a **network organization**, which uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes.[13] This organizational form is sometimes called a modular organization by manufacturing firms.[14] Such an approach allows organizations to concentrate on what they

matrix structure
An organizational structure that assigns specialists from different functional departments to work on one or more projects

project structure
An organizational structure in which employees continuously work on projects

boundaryless organization
An organization whose design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure

virtual organization
An organization that consists of a small core of full-time employees and outside specialists temporarily hired as needed to work on projects

network organization
An organization that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes

FUTURE VISION

The Working World in 2020

Flexible Organizations

By 2020, a considerably smaller proportion of the labor force will hold full-time jobs. Organizations will increasingly rely on contract employees and part-timers to get the work done, giving the organization greater flexibility. From the employee's standpoint, it will mean greater individual control of the employee's future rather than being dependent on a single employer.

Future workers will be more like outside consultants than full-time employees. Assignments will be temporary. They might last a few weeks or a few years, but the presumption is—on the part of both workers and employers—that the relationship will not become permanent. As such, you will find yourself consistently working on new projects with a different group of coworkers.

Additionally, expect to see fewer large corporate headquarter buildings and centralized corporate centers. Work demands will not require organizations to house large numbers of workers in one place. "Headquarter" cities such as New York, Toronto, or London will find themselves with lots of empty office space. Conversely, job opportunities will be geographically dispersed, and in many cases, not dependent at all on where employees reside. An increasing proportion of the labor force will work from home. And many organizations will create regional satellite centers where employees meet or work. These centers will be less costly to operate than centralized offices and will cut down on commuting distances for workers.

do best by contracting out other activities to companies that do those activities best. For instance, the strategy of British company ARM, a microchip designer, is to find a lot of partners. It contracts with those partners for manufacturing and sales. Because ARM doesn't manufacture, it can encourage its customers (ARM's chip designs serve as the brains of 98% of the world's cell phones) to request whatever they like. Such flexibility is particularly valuable in the cell phone market where having custom chips and software can provide an edge.[15] At Boeing, the company's head of development for the 787 Dreamliner manages thousands of employees and some 100 suppliers at more than 100 sites in different countries.[16] Sweden's Ericsson contracts its manufacturing and even some of its research and development to more cost-effective contractors in New Delhi, Singapore, California, and other global locations.[17] And at Penske Truck Leasing, dozens of business processes, such as securing permits and titles, entering data from drivers' logs, and processing data for tax filings and accounting, have been outsourced to Mexico and India.[18]

Learning Organizations

Let's Get Real

Being a learning organization means *being open to resources, technologies, and ideas that may be outside the box.*

Doing business in an intensely competitive global environment, British retailer Tesco realizes how important it is for its stores to run well behind the scenes.[19] And it does so using a proven "tool" called Tesco in a Box, which is a self-contained complete IT system and matching set of business processes that provides the model for all of Tesco's international business operations. This approach promotes consistency in operations as well as being a way to share innovations. Tesco is an example of a **learning organization**, an organization that has developed the capacity to continuously learn, adapt, and change. "Today's managerial challenge is to inspire and enable knowledge workers to solve, day in and day out, problems that cannot be anticipated."[20] In a learning organization, employees continually acquire and share new knowledge and apply that knowledge in making decisions or doing their work. Some organizational theorists even go so far as to say that an organization's ability to do this—that is, to learn and to apply that learning—may be the only sustainable source of competitive advantage.[21] What structural characteristics does a learning organization need?

Employees throughout the entire organization—across different functional specialties and even at different organizational levels—must share information and collaborate on work activities. Such an environment requires minimal structural and physical barriers, which allows employees to work together in doing the organization's work the best way they can and, in the process, learn from each other. Finally, empowered work teams tend to be an important feature of a learning organization's structural design. These teams make

decisions about doing whatever work needs to be done or resolving issues. With empowered employees and teams, there's little need for "bosses" to direct and control. Instead, managers serve as facilitators, supporters, and advocates.

Organizing for Collaboration

11.2 LEARNING OUTCOME
Discuss how organizations organize for collaboration.

In 3M's dental products division, Sumita Mitra, a research scientist, helped develop coatings that prevent tooth plaque and innovative cement bonding materials that could be set by light.[22] However, as cosmetic dentistry's popularity increased, she sensed an opportunity for developing a product that had both the strength and the natural appearance that dentists wanted. Finding that product meant venturing outside the realm of traditional dental materials. Mitra first turned to 3M's database of technical reports written by the company's some 7,000 scientists. Although this database is invaluable for spreading knowledge throughout the company, "the real work of collaboration happens face-to-face, often at events sponsored by TechForum, an employee-run organization designed to foster communications between scientists in different labs or division." There, Mitra found valuable information and guidance from other scientists in different divisions of the company. 3M also has an R&D Workcenter networking Web site, which Mitra describes as "a LinkedIn for 3M scientists." It also proved to be a valuable collaborative tool. Both the TechForum and the R&D Workcenter proved beneficial for Mitra's research efforts. Three years after starting her research, 3M introduced Filtek Supreme Plus, a strong, polishable dental material and the first to include nanoparticles. At 3M, employees are expected to collaborate and are evaluated on their success. Such collaborations among the company's scientists have led to several breakthroughs in product technology.

It's fair to say that the world of work has changed. Organizations need to be more flexible in how work gets done, although it still needs to get done efficiently and effectively. Throw in the fact that innovation and the ability to bring innovations to market quickly is critical and you can begin to appreciate how traditional top-down decision making that strictly follows the chain of command and narrowly defined functional arrangements might not be the best structural mechanisms to do this. Many organizations, like 3M, are encouraging collaborative work among employees. Exhibit 11-3 lists some of the benefits and drawbacks of working collaboratively. An organization's collaboration efforts can be internal—that is, among employees within the organization. Or those efforts can be external collaborations with any stakeholders. In both types, it's important that managers recognize how such collaborative efforts "fit" with the organization's structure and the challenges of making all the pieces work together successfully. Let's take a look at each of these types of collaboration.

EXHIBIT 11-3
Benefits and Drawbacks of Collaborative Work

Benefits	Drawbacks
• Increased communication and coordination	• Potential interpersonal conflict
• Greater innovative output	• Different views and competing goals
• Enhanced ability to address complex problems	• Logistics of coordinating
• Sharing of information and best practices	

Sources: Based on R. Wagner and G. Muller, "The Pinnacle of Partnership: Unselfishness," *Gallup Management Journal Online* [http://gmj.gallup.com], February 18, 2010; M. T. Hansen, "When Internal Collaboration Is Bad for Your Company," *Harvard Business Review*, April 2009, pp. 83–88; G. Ahuja, "Collaboration Networks, Structural Holes and Innovation: A Longitudinal Study," *Academy of Management Proceedings Online,* 1998; and M. Pincher, "Collaboration: Find a New Strength in Unity," *Computer Weekly,* November 27, 2007, p. 18.

learning organization
An organization that has developed the capacity to continuously learn, adapt, and change

Internal Collaboration

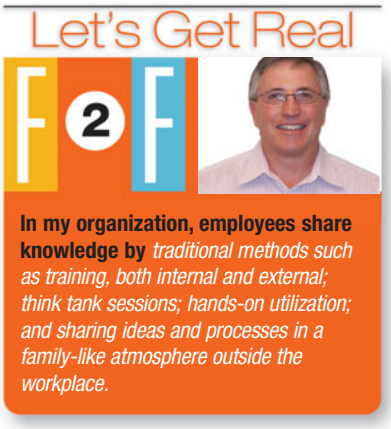
When managers believe that collaboration among employees is needed for more coordinated and integrated work efforts, they can use several different structural options. Some of the more popular include cross-functional teams, task forces, and communities of practice.

CROSS-FUNCTIONAL TEAMS. Organizations are using team-based structures because they've found that teams are more flexible and responsive to changing events than are traditional departments or other permanent work groups. Teams have the ability to quickly assemble, deploy, refocus, and disband. In Chapter 10, we introduced the concept of a **cross-functional team** in our discussion of the various forms of departmentalization. Remember that it's a work team composed of individuals from various functional specialties. When a cross-functional team is formed, team members are brought together to collaborate on resolving mutual problems that affect the respective functional areas. Ideally, the artificial boundaries that separate functions disappear and the team focuses on working together to achieve organizational goals. For instance, at ArcelorMittal, the world's biggest steel company, cross-functional teams of scientists, plant managers, and salespeople review and monitor product innovations.[23] The concept of cross-functional teams is even being applied in health care. For instance, at Suburban Hospital in Bethesda, Maryland, intensive care unit (ICU) teams composed of a doctor trained in intensive care medicine, a pharmacist, a social worker, a nutritionist, the chief ICU nurse, a respiratory therapist, and a chaplain meet daily with every patient's bedside nurse to discuss and debate the best course of treatment. The hospital credits this team care approach with reducing errors, shortening the amount of time patients spent in ICU, and improving communication between families and the medical staff.[24] We'll discuss teams in more detail in Chapter 13.

TASK FORCES. Another structural option organizations might use is a **task force** (also called an **ad hoc committee**), which is a temporary committee or team formed to tackle a specific short-term problem affecting several departments. The temporary nature of a task force is what differentiates it from a cross-functional team. Task force members usually perform many of their normal work tasks while serving on the task force. However, the members of a task force must collaborate to resolve the issue that's been assigned to them. When the issue or problem is solved, the task force is no longer needed and members return to their regular assignments. Many organizations, from government agencies to

South Korea's Samsung Electronics Company became the world's first electronics maker to release three-dimensional LED televisions. Because innovation and speed to market are critical to Samsung's success, the company encourages collaboration and cooperation among employees within the organization and among its business partners all along the supply chain. At 42 research facilities throughout the world, teams of researchers and engineers collaborate on emerging core technologies. Within its divisions, Samsung uses cross-functional product development teams to commercialize products scheduled for release within one or two years.

universities to businesses, use task forces. For instance, at San Francisco–based accounting firm Eichstaedt & Devereaux, employee task forces have helped develop formal recruiting, mentoring, and training programs. And at Frito-Lay, a subsidiary of PepsiCo, Inc., a task force that included members of the company's Hispanic employees' resource group helped in the development of two new products: Lay's Cool Guacamole potato chips and Doritos Guacamole tortilla chips.[25]



COMMUNITIES OF PRACTICE. Early in 2008, American soldiers training Afghan and Iraqi armies were having problems using a rocket-propelled grenade launcher. The frustrated unit commander posted a question to one of the U.S. Army's online forums where soldiers ask questions and share ideas with peers around the world. Within a few days, someone who had had a similar experience with the launcher posted a simple solution on the Web site on how to safely prevent misfiring. Problem solved![26] Such types of internal collaborations are called **communities of practice**, which are "groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis."[27] For example, repair technicians at Xerox share "war stories" to communicate their experiences and to help others solve difficult problems with repairing machines.[28] At pharmaceutical firm Pfizer, communities of practice are integrated into the company's formal structure. Called employee councils and networks, these communities share knowledge and help product development teams on difficult issues such as safety.[29] Pfizer's more structured approach to recognizing the value of such collaboration is becoming more common. But how effective are these communities of practice? A recent research study found that communities of practice can "create value by contributing to increased effectiveness in employees' job performance through greater access that they provide to the ideas, knowledge, and best practices shared among community members."[30] Exhibit 11-4 lists some suggestions for making such communities work.

External Collaboration

Like our chapter-opening story about Verizon, Intuit has figured out a way to get its customers involved. Diehard users of QuickBooks have access to a site—QuickBooks Live Community—where they can exchange helpful information with others. For customers, that often means faster answers to problems. And for the company, this "volunteer army"

EXHIBIT 11-4
Making Communities of Practice Work

- Have top management support and set clear expectations.
- Create an environment that will attract people and make them want to return for advice, conversation, and knowledge sharing.
- Encourage regular meetings of the community, whether in person or online.
- Establish regular communication among community members.
- Focus on real problems and issues important to the organization.
- Have clear accountability and managerial oversight.

Sources: Based on R. McDermott and D. Archibald, "Harnessing Your Staff's Informal Networks," *Harvard Business Review,* March 2010, pp. 82–89; S. F. Gale, "The Power of Community, *Workforce Management Online,* March 2009; and E. Wenger, R. McDermott, and W. Snyder, *Cultivating Communities of Practice: A Guide to Managing Knowledge* (Boston: Harvard Business School Press, 2002).

cross-functional team
A work team composed of individuals from various functional specialties

task force (or **ad hoc committee**)
A temporary committee or team formed to tackle a specific short-term problem affecting several departments

communities of practice
Groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis

means less investment in paid technicians.[31] External collaboration efforts have become quite popular for organizations, especially in the area of product innovation. We're going to look at two forms of external collaboration: open innovation and strategic partnerships. Each of these can provide organizations with needed information, support, and contributions to getting work done and achieving organizational goals. But it's important that managers understand the challenges of how each might fit into the organization's structural design.

OPEN INNOVATION. Pharmaceutical giant GlaxoSmithKline PLC opened to the public the designs behind 13,500 chemical compounds associated with the parasite that causes malaria. Glaxo "hopes that sharing information and working together will lead scientists to come up with a drug for treating the mosquito-borne disease faster than the company could do on its own."[32]

The days when businesses generate their own product development ideas in house and develop, manufacture, market, and deliver those products to customers may be numbered. Today, many companies are trying **open innovation**, which is opening up the search for new ideas beyond the organization's boundaries and allowing innovations to easily transfer inward and outward. For instance, Procter & Gamble, Starbucks, Dell, Best Buy, and Nike have all created digital platforms that allow customers to help them create new products and messages.[33] As you can see, many of today's successful companies are collaborating directly with customers in the product development process. Others are partnering with suppliers, other outsiders, and even competitors. Exhibit 11-5 describes some of the benefits and drawbacks of open innovation.

STRATEGIC PARTNERSHIPS. Companies worldwide are finding ways to connect to each other. Once bitter rivals, Nokia and Qualcomm formed a cooperative agreement to develop next-generation cell phones for North America. Nokia also collaborated with Yahoo! in a partnership where Yahoo's software powers e-mail and chat services on most Nokia phones.[34]

In today's environment, organizations are looking for advantages wherever they can get them. One way they can do this is with **strategic partnerships**, which are collaborative relationships between two or more organizations in which they combine their resources and capabilities for some business purpose. Here are some reasons why such partnerships make sense: flexibility and informality of arrangements promote efficiencies, provide access to new markets and technologies, and entail less paperwork when creating and disbanding projects; risks and expenses are shared by multiple parties; independent brand identification is kept and can be exploited; working with partners possessing multiple skills can create major synergies; rivals can often work together harmoniously; partnerships can take on varied forms from simple to complex; dozens of participants can be accommodated in

EXHIBIT 11-5
Benefits and Drawbacks of Open Innovation

Benefits	Drawbacks
• Gives customers what they want—a voice	• High demands of managing the process
• Allows organizations to respond to complex problems	• Extensive support needed
• Nurtures internal and external relationships	• Cultural challenges
• Brings focus back to marketplace	• Greater need for flexibility
• Provides way to cope with rising costs and uncertainties of product development	• Crucial changes required in how knowledge is controlled and shared

Sources: Based on S. Lindegaard, "The Side Effects of Open Innovation," *Bloomberg BusinessWeek Online,* June 7, 2010; H. W. Chesbrough and A. R. Garman, "How Open Innovation Can Help You Cope in Lean Times," *Harvard Business Review,* December 2009, pp. 68–76; A. Gabor, "The Promise [and Perils] of Open Collaboration," *Strategy & Business Online,* Autumn 2009; and J. Winsor, "Crowdsourcing: What It Means for Innovation," *BusinessWeek Online,* June 15, 2009.

partnership arrangements; and antitrust laws can protect R&D activities.[35] Strategic partnerships are growing in popularity. However, as with all the collaborative arrangements we've described—external and internal—the challenge for managers is finding ways to exploit the benefits of such collaboration while incorporating the collaborative efforts seamlessly into the organization's structural design.

Flexible Work Arrangements

11.3 LEARNING OUTCOME
Explain flexible work arrangements used by organizations.

Accenture consultant Keyur Patel's job arrangement is becoming the norm, rather than the exception.[36] During his recent consulting assignment, he had three clocks on his desk: one set to Manila time (where his software programmers were), one to Bangalore (where another programming support team worked), and the third for San Francisco, where he was spending four days a week helping a major retailer implement IT systems to track and improve sales. And his cell phone kept track of the time in Atlanta, his home, where he headed on Thursday evenings.

For this new breed of professionals, life is a blend of home and office, work and leisure. Thanks to technology, work can now be done anywhere, anytime. As organizations adapt their structural designs to these new realities, we see more of them adopting flexible working arrangements. Such arrangements not only exploit the power of technology, but give organizations the flexibility to deploy employees when and where needed. In this section, we're going to take a look at some different types of flexible work arrangements including telecommuting and compressed workweeks, flextime, and job sharing. As with the other structural options we've looked at, managers must evaluate these types in light of the implications for decision making, communication, authority relationships, work task accomplishment, and so forth.

Telecommuting

Eve Gelb used to endure hour-and-a-half commutes morning and evening on the 405 Freeway in Los Angeles to her job as a project manager at SCAN Health Plan.[38] Now, she's turned her garage into an office and works from home as a telecommuter. On the days when she does have to go in to the corporate office, she shares a space with her three subordinates who also work flexibly. Information technology has made telecommuting possible, and external environmental changes have made it necessary for many organizations. **Telecommuting** is a work arrangement in which employees work at home and are linked to the workplace by computer. Needless to say, not every job is a candidate for telecommuting, but many are.

Working from home used to be considered a "cushy perk" for a few lucky employees and such an arrangement wasn't allowed very often. Now, many businesses view telecommuting as a business necessity. For instance, at SCAN Health Plan, the company's chief financial officer said that getting more employees to telecommute provided the company a way to grow without having to incur any additional fixed costs such as office buildings, equipment, or parking lots. In addition, some companies view the arrangement as a way to combat high gas prices and to attract talented employees who want more freedom and control over their work.

Despite its apparent appeal, many managers are reluctant to have their employees become "laptop hobos."[39] They argue that employees will waste time surfing the Internet or playing online games instead of working, that they'll ignore clients, and that they'll desperately miss

by the numbers[37]

8 percent of companies surveyed have more than 40 percent of their employees working virtually.

44 percent of employees say their top gripe about working from home is not having face-to-face interaction.

40 percent of respondents view collaborating with customers and suppliers as the most significant impact on the amount of time it took to get new products to market.

20 percent of Americans have "nonstandard" jobs (work fewer than 35 hours a week, independent contractors, day laborers, etc.).

12 percent of respondents to a global workforce survey say that telecommuting is extremely important to them.

81 percent of employers offer some form of flexible work arrangements.

70 percent of the U.S. workforce qualifies as "mobile" at least part of the time.

open innovation
Opening up the search for new ideas beyond the organization's boundaries and allowing innovations to easily transfer inward and outward

strategic partnerships
Collaborative relationships between two or more organizations in which they combine their resources and capabilities for some business purpose

telecommuting
A work arrangement in which employees work at home and are linked to the workplace by computer

the camaraderie and social exchanges of the workplace. In addition, managers wonder how they'll "manage" these employees. How do you interact with an employee and gain his or her trust when they're not physically present? And what if their work performance isn't up to par? How do you make suggestions for improvement? Another significant challenge is making sure that company information is kept safe and secure when employees are working from home. (We'll discuss this particular issue more fully in Chapter 18 when we look at the control process.)

Employees often express the same concerns about working remotely, especially when it comes to the isolation of not being "at work." At Accenture, where employees are scattered around the world, the chief human resources officer says that it isn't easy to maintain that esprit de corps.[40] However, the company has put in place a number of programs and processes to create that sense of belonging for its workforce, including Web-conferencing tools, assigning each employee to a career counselor, and holding quarterly community events at its offices. In addition, the telecommuter employee may find that the line between work and home becomes even more blurred, which can be stressful.[41] Managers and organizations must address these important organizing issues as they move toward having employees telecommute.

So, once an organization decides that it wants to establish telecommuting opportunities for employees, what needs to happen next? One of the first issues to address is encouraging employees to make that decision to become remote workers. For instance, at SCAN Health Plan, the company offered free high-speed Internet access and free office furniture, along with help in setting it up to encourage more of its workforce to work from home. Other companies have encouraged employees to work anywhere but at the office by pointing to the pay "increase" employees would receive from money saved on gas, dry cleaning, and eating out at lunch. Other companies have used the "green" angle . . . emphasizing the carbon-free aspect of not driving long distances to and from the workplace. Managing the telecommuters then becomes a matter of keeping employees feeling like they're connected and engaged, a topic we delve into at the end of the chapter as we look at today's organizational design challenges.

Compressed Workweeks, Flextime, and Job Sharing

During the recent economic crisis in the United Kingdom, accounting firm KPMG needed to reduce costs.[42] It decided to use flexible work options as a way of doing so. The company's program, called Flexible Futures, offered employees four options to choose from: a four-day workweek with a 20 percent salary reduction; a two- to twelve-week sabbatical at

KPMG has created a culture of flexibility throughout its global network of professional firms that provide audit, tax, and advisory services. Employees of KPMG offices in the United Kingdom, shown here, appreciate flexible working options that include shorter work weeks, working from home, job sharing, and "glide time," where the start and finish times of the work day can be adjusted. From research and employee surveys, KPMG has learned that flexible work arrangements are becoming increasingly important to all employees as they strive to balance their work–life commitments. Giving employees freedom in scheduling their work helps KPMG attract and retain the best workforce.

30 percent of pay; both options; or continue with their regular schedule. Some 85 percent of the U.K. employees agreed to the reduced-workweek plan. "Since so many people agreed to the flexible work plans, KPMG was able to cap the salary cut at about 10 percent for the year in most cases." The best thing, though, was that as a result of the plan, KPMG didn't have to do large-scale employee layoffs.

As this example shows, organizations may sometimes find they need to restructure work using forms of flexible work arrangements. One approach is a **compressed workweek**, which is a workweek where employees work longer hours per day but fewer days per week. The most common arrangement is four 10-hour days (a 4-40 program). For example, in Utah, state employees have a mandated (by law) four-day workweek, with offices closed on Fridays in an effort to reduce energy costs. After a year's time, the state found that its compressed workweek resulted in a 13 percent reduction in energy use and estimated that state employees saved as much as $6 million in gasoline costs.[43] Another alternative is **flextime** (also known as **flexible work hours**), which is a scheduling system in which employees are required to work a specific number of hours a week but are free to vary those hours within certain limits. A flextime schedule typically designates certain common core hours when all employees are required to be on the job, but allows starting, ending, and lunch-hour times to be flexible. According to a survey of companies by the Families and Work Institute, 81 percent of the respondents now offer flextime benefits. Another survey by Watson Wyatt of mid- and large-sized companies found that flexible work schedules was the most commonly offered benefit.[44]

In Great Britain, McDonald's is experimenting with an unusual program—dubbed the Family Contract—to reduce absenteeism and turnover at some of its restaurants. Under this Family Contract, employees from the same immediate family can fill in for one another for any work shift without having to clear it first with their manager.[45] This type of job scheduling is called **job sharing**—the practice of having two or more people split a full-time job. Although something like McDonald's Family Contract may be appropriate for a low-skilled job, other organizations might offer job sharing to professionals who want to work but don't want the demands and hassles of a full-time position. For instance, at Ernst & Young, employees in many of the company's locations can choose from a variety of flexible work arrangements including job sharing. Also, many companies have used job sharing during the economic downturn to avoid employee layoffs.[46]

Contingent Workforce

11.4 LEARNING OUTCOME
Discuss organizing issues associated with a contingent workforce.

At Conrad & Co., a small private accounting firm in Spartanburg, South Carolina, Diana Galvin started as a temporary, part-time employee before moving into a full-time staff accountant position. She got her full-time job by learning how to do and then doing her assignments well and offering suggestions on how the company could improve.[47] But not every temporary worker gets offered a full-time job (or wants to be offered one). Prior to her full-time employment, Diana was part of what has been called the contingent workforce. **Contingent workers** are temporary, freelance, or contract workers whose employment is *contingent* upon demand for their services.

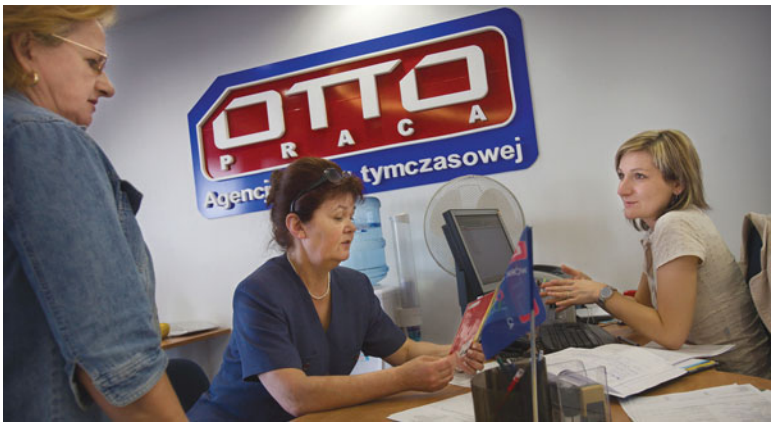
"Stung by massive and disruptive layoffs that accompanied the latest recession, companies are starting to rethink the way they get work done."[48] As organizations eliminate full-time jobs through downsizing and other organizational restructurings, they often rely on a contingent workforce to fill in as needed. Also, one of the top-ranking forecasts in a survey that asked HR experts to look ahead 10 years to 2018 was that "Firms will become adept at sourcing and engaging transient talent around short-term needs, and will focus considerable energy

compressed workweek
A workweek where employees work longer hours per day but fewer days per week

flextime (or flexible work hours)
A scheduling system in which employees are required to work a specific number of hours a week but are free to vary those hours within certain limits

job sharing
The practice of having two or more people split a full-time job

contingent workers
Temporary, freelance, or contract workers whose employment is contingent upon demand for their services



Recognizing a shortage of workers in the Netherlands and a shortage of jobs in Poland, two young Dutch entrepreneurs founded Otto Work Force in 2000 as an agency for temporary workers whose employment is contingent on the demand for their services. At the company's office in Opole, Poland, shown here, Otto recruits employees to fill requests from Dutch firms for temporary workers for a limited time, usually from one to six months, for a wide range of jobs ranging from cleaning to construction. Otto recruiters provide the workers with travel to the Netherlands, living accommodations, and transportation to and from work. Otto has expanded its business to other countries as more and more firms rely on the contingent workforce.

on the long-term retention of smaller core talent groups."[49] The model for the contingent worker structural approach can be seen in the film industry. There, people are essentially "free agents" who move from project to project applying their skills—directing, talent casting, costuming, makeup, set design, and so forth—as needed. They assemble for a movie, then disband once it's finished and move on to the next project. This type of contingent worker is common in project organizations. But contingent workers can also be temporary employees brought in to help with special needs such as seasonal work. Let's look at some of the organizational issues associated with contingent workers.

One of the main issues businesses face with their contingent workers, especially those who are independent contractors or freelancers, is classifying who actually qualifies as one.[50] The decision on who is and who isn't an independent contractor isn't as easy or as unimportant as it may seem. Companies don't have to pay Social Security, Medicare, or unemployment insurance taxes on workers classified as independent contractors. And those individuals also aren't covered by most workplace laws. So it's an important decision. For instance, FedEx treats some 12,000 of its package deliverers in its FedEx Ground Division as contractors. Their classification of these workers as independent contractors has caused battles with the Internal Revenue Service and state governments and riled competitor UPS, whose drivers are unionized employees and argues that FedEx's policy is "unfair to taxpayers, competitors, and the workers themselves."[51] The federal government is also looking at increased power to penalize employers that misclassify workers. So, there is an incentive to be totally above-board in classifying who is and is not an independent contractor. The legal definition of a contract worker depends on how much control a company has over the person; that is, does the company control what the worker does and how the worker does his or her job? The more control the company has, "the more likely the individual will be considered an employee rather than an independent contractor."[52] And it isn't just the legal/tax issues that are important in how workers are classified. The structural implications, especially in terms of getting work done and how performance problems are resolved, are important, as well.

Another issue with contingent workers is the process for recruiting, screening, and placing these contingent workers where their work skills and efforts are needed.[53] As we'll discuss in the next chapter on human resource management, these important steps help ensure that the right people are in the right places at the right times in order to get work done efficiently and effectively. Any organization that wants to minimize potential problems with its contingent workers needs to pay attention to hiring.

The final issue we want to look at is the importance of a contingent employee's performance. Just like a regular employee, a contingent employee is brought on board to do some specific work task(s). It's important that managers have a method of establishing goals, schedules, and deadlines with the contingent employees.[54] And it's also important that mechanisms be in place to monitor work performance and goal achievement, especially if the contingent employee is working off-site.

LEARNING OUTCOME 11.5
Describe today's organizational design challenges.

Today's Organizational Design Challenges

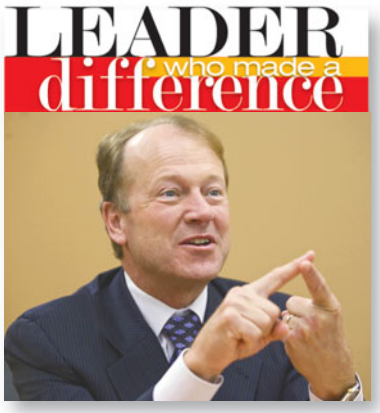
As managers look for organizational designs that will best support and facilitate employees doing their work efficiently and effectively, they must contend with certain challenges. These challenges include keeping employees connected and managing global structural issues.

Keeping Employees Connected

Many organizational design concepts were developed during the twentieth century when work was done at an employer's place of business under a manager's supervision, work tasks were

fairly predictable and constant, and most jobs were full-time and continued indefinitely.[55] But that's not the way it is today at many companies. For instance, thousands of Cisco Systems employees sit at unassigned desks in team rooms interspersed with communal break areas. At some IBM divisions, only a small percentage of employees—mostly top managers and their assistants—have fixed desks or offices. All others are either mobile employees or they share desks when they need to be at work. At Sabre Holdings, teams are assigned to neighborhoods of workspaces and employees find places for themselves when they arrive.[56]

As these examples show, a major structural design challenge for managers is finding a way to offer flexibility but also keeping widely dispersed and mobile employees connected to the organization. Mobile computing and communication technology have given organizations and employees ways to stay connected and to be more productive. For instance, handheld devices have e-mail, calendars, and contacts that can be used anywhere there's a wireless network. And these devices can be used to log into corporate databases and company intranets. Employees can videoconference using broadband networks and Webcams. Many companies are giving employees key fobs with constantly changing encryption codes that allow them to log onto the corporate network to access e-mail and company data from any computer hooked up to the Internet. Cell phones switch seamlessly between cellular networks and corporate Wi-Fi connections. The biggest issue in doing work anywhere, anytime, however, is security. Companies must protect their important and sensitive information. Fortunately, software and other disabling devices have minimized security issues considerably. Even insurance providers are more comfortable giving their mobile employees access to information. For instance, Health Net Inc. gave BlackBerry phones to many of its managers so they can tap into customer records from anywhere. As one tech company CEO said, "Companies now can start thinking about innovative apps [applications] they can create and deliver to their workers anywhere."[58]



One senior vice president at Cisco Systems belongs to more internal company teams than "he can count on both hands." While that may sound like a nightmare to some, that's part of the organizational structure "web" created by CEO John T. Chambers.[57] The structure is so complex that it takes some 15 minutes and a whiteboard to explain it. However, Chambers uses three words to describe its benefits: "speed, skill, and flexibility." His idea for the company's structure originated at the end of the 2001 downturn after Cisco wrote off some $2.2 billion in losses. Chambers realized that the "company's hierarchical structure precluded it from moving quickly into new markets." So he began grouping executives into cross-functional teams figuring that this would help break down traditional silos and lead to faster decision making. At first, the executives didn't like it. Some couldn't handle working with unfamiliar colleagues; others were upset with the new team-based compensation structure. However, the company's decision making has accelerated—it only took executives eight days to figure out that it made sense to acquire Web-conferencing company WebEx.

Managing Global Structural Issues

Are there global differences in organizational structures? Are Australian organizations structured like those in the United States? Are German organizations structured like those in France or Mexico? Given the global nature of today's business environment, managers need to be familiar with this issue. Researchers have concluded that the structures and strategies of organizations worldwide are similar, "while the behavior within them is maintaining its cultural uniqueness."[59] What does this distinction between strategy and culture mean for designing effective and efficient structures? When designing or changing structure, managers may need to think about the cultural implications of certain design elements. For instance, one study showed that formalization—rules and bureaucratic mechanisms—may be more important in less economically developed countries and less important in more economically developed countries where employees may have higher levels of professional education and skills.[60] Another study found that organizations with people from high power-distance countries (such as Greece, France, and most of Latin America) find that their employees are much more accepting of mechanistic structures than are employees from low power-distance countries. Other structural design elements may be affected by cultural differences as well.

No matter what structural design managers choose for their organizations, the design should help employees do their work in the best—most efficient and effective—way they can. The structure should support and facilitate organizational members as they carry out the organization's work. After all, an organization's structure is simply a means to an end.

What Would You Do?

Let's Get Real:

My Response *to A Manager's Dilemma, page 288*

Richard "Dickie" Townley
Sr. Manager Product Terminals and Marketing
Holly Energy Partners, L.P.
Artesia, NM

A volunteer organization structure is not a new concept. We have used the volunteer organization structure for years in the health care system (candy stripers) and in political campaign structures. The difference we find here is the Web-based structure and boundaryless nature of Web forums. Many managers today may not be as technologically savvy as the employees they direct and not comfortable with a boundaryless organizational concept. They see the potential value of a Web-based volunteer organizational structure; however, their working knowledge may be limited. I would take a multiphase approach to setting up a volunteer organizational structure. Web forum utilization would be the key component I would use to design a volunteer structure.

Phase one:

- Assign managers to work with the information technology group to identify potential Web forums that would be resources for customer service.
- Have employees as well as management utilize the Web forums in-house by posing a wide range of user issues.

Phase two: Categorize the results of the utilization phase.

- Most knowledgeable responses/forums
- Most dependable responses/forums
- Most user-friendly forums

Phase three:

- Create a marketing strategy to incorporate these sites into your business model.
- Create an organizational flowchart incorporating both the conventional customer service resources and the nonconventional Web forums.

Phase four:

- Continue to utilize the Web forums in-house to assure quality control and customer satisfaction.

CHAPTER SUMMARY
by Learning Outcomes

Describe contemporary organizational designs.

LEARNING OUTCOME 11.1

In a team structure, the entire organization is made up of work teams. The matrix structure assigns specialists from different functional departments to work on one or more projects being led by project managers. A project structure is one in which employees continuously work on projects. A virtual organization consists of a small core of full-time employees and outside specialists temporarily hired as needed to work on projects. A network organization is an organization that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes. A learning organization is one that has developed the capacity to continuously learn, adapt, and change. It has certain structural characteristics including an emphasis on sharing information and collaborating on work activities, minimal structural and physical barriers, and empowered work team.

Discuss how organizations organize for collaboration.

LEARNING OUTCOME 11.2

An organization's collaboration efforts can be internal or external. Internal collaborative structural options include cross-functional teams, task forces, and communities of practice. A cross-functional team is a work team composed of individuals from various functional specialties. A task force is a temporary committee or team formed to tackle a specific short-term problem affecting several departments. Communities of practice are groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis. External collaborative options include open innovation and strategic partnerships. Open innovation expands the search for new ideas beyond the organization's boundaries and allows innovations to easily transfer inward and outward. Strategic partnerships are collaborative relationships between two or more organizations in which they combine resources and capabilities for some business purpose.

Explain flexible work arrangements used by organizations.

LEARNING OUTCOME 11.3

Flexible work arrangements give organizations the flexibility to deploy employees when and where they're needed. Structural options include telecommuting, compressed workweeks, flextime, and job sharing. Telecommuting is a work arrangement in which employees work at home and are linked to the workplace by computer. A compressed workweek is one in which employees work longer hours per day but fewer days per week. Flextime is a scheduling system in which employees are required to work a specific number of hours a week but are free to vary those hours within certain limits. Job sharing is when two or more people split a full-time job.

Discuss organizing issues associated with a contingent workforce.

LEARNING OUTCOME 11.4

Contingent workers are temporary, freelance, or contract workers whose employment is contingent upon demand for their services. Organizing issues include classifying who actually qualifies as an independent contractor; setting up a process for recruiting, screening, and placing contingent workers; and having a method in place for establishing goals, schedules, and deadlines and for monitoring work performance.

Describe today's organizational design challenges.

LEARNING OUTCOME 11.5

The two main organizational design challenges for today include keeping employees connected and managing global structural issues.

mymanagementlab To check your understanding of learning outcomes 11.1 – 11.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Describe the four contemporary organizational designs. How are they similar? Different?
2. Differentiate between matrix and project structures.
3. How can an organization operate without boundaries?
4. The boundaryless organization has the potential to create a major shift in the way we work. Do you agree or disagree? Explain.
5. What types of skills would a manager need to effectively work in a project structure? In a boundaryless organization? In a learning organization?
6. How does each of the different types of collaboration (both internal and external) contribute to more coordinated and integrated work efforts?
7. What structural issues might arise in managing employees' flexible work arrangements? Think about what you've learned about organizational design. How might that information help a manager address those issues?
8. Does the idea of a flexible work arrangement appeal to you? Why or why not?
9. What structural issues might arise in managing contingent workers? Again, think about what you've learned about organizational design. How might that information help a manager address those issues?
10. Why is it a challenge to "keep employees connected" in today's organizations?

PREPARING FOR: My Career

ETHICS DILEMMA

"Ethical hacking." It's probably an understatement to say that people were excited about the introduction of Apple's iPad.[61] Then the news broke that a small group of computer experts calling themselves Goatse Security had hacked into AT&T's Web site and found numbers that identified iPads connected to AT&T's mobile network. Those numbers allowed the group to uncover 114,000 e-mail addresses of thousands of first-adopter iPad customers including prominent officials in companies, politics, and the military. AT&T called it an act of malice, condemned the hackers, and apologized to its affected customers. The group that exposed the flaw said that it did a "public service."

One analyst for CNET also said that the group did a good thing. "Security researchers often disclose holes to keep vendors honest. Many sources complain that they notify companies of security vulnerabilities and that the companies take months, or even years, to provide a fix to customers. In the meantime, malicious hackers may have discovered the same hole and may be using it to steal data, infect computers, or attack systems without the computer owner knowing there is even a risk." What do you think? Is there such a thing as "ethical hacking?" What ethical issues do you see here? What are the implications for various stakeholders in this situation?

SKILLS EXERCISE

Developing Your Acquiring Power Skill

About the Skill

Power is a natural process in any group or organization, and to perform their jobs effectively, managers need to know how to acquire and use power.[62] Why is having power important? Because power makes you less dependent on others. When a manager has power, he or she is not as dependent on others for critical resources. And if the resources a manager controls are important, scarce, and nonsubstitutable, her power will increase because others will be more dependent on her for those resources. (See Chapter 17 for more information on leader power.)

Steps in Practicing the Skill

You can be more effective at acquiring and using power if you use the following eight behaviors.

1. *Frame arguments in terms of organizational goals.* To be effective at acquiring power means camouflaging

your self-interests. Discussions over who controls what resources should be framed in terms of the benefits that will accrue to the organization; do not point out how you personally will benefit.

2. *Develop the right image.* If you know your organization's culture, you already understand what the organization wants and values from its employees in terms of dress, associates to cultivate and those to avoid, whether to appear risk taking or risk aversive, the preferred leadership style, the importance placed on getting along well with others, and so forth. With this knowledge, you're equipped to project the appropriate image. Because the assessment of your performance isn't always a fully objective process, you need to pay attention to style as well as substance.
3. *Gain control of organizational resources.* Controlling organizational resources that are scarce *and* important is a source of power. Knowledge and expertise are particularly effective resources to control. They make you more valuable to the organization and, therefore, more likely to have job security, chances for advancement, and a receptive audience for your ideas.
4. *Make yourself appear indispensable.* Because we're dealing with appearances rather than objective facts, you can enhance your power by appearing to be indispensable. You don't really have *to be* indispensable as long as key people in the organization believe that you are.
5. *Be visible.* If you have a job that brings your accomplishments to the attention of others, that's great. However, if you don't have such a job, you'll want to find ways to let others in the organization know what you're doing by highlighting successes in routine reports, having satisfied customers relay their appreciation to senior executives, being seen at social functions, being active in your professional associations, and developing powerful allies who speak positively about your accomplishments. Of course, you'll want to be on the lookout for those projects that will increase your visibility.
6. *Develop powerful allies.* To get power, it helps to have powerful people on your side. Cultivate contacts with potentially influential people above you, at your own level, and at lower organizational levels. These allies often can provide you with information that's otherwise not readily available. In addition, having allies can provide you with a coalition of support if and when you need it.
7. *Avoid "tainted" members.* In almost every organization, there are fringe members whose status is questionable. Their performance and/or loyalty may be suspect. Keep your distance from such individuals.
8. *Support your boss.* Your immediate future is in the hands of your current boss. Because he or she evaluates your performance, you'll typically want to do whatever is necessary to have your boss on your side. You should make every effort to help your boss succeed, make her look good, support her if she is under siege, and spend the time to find out the criteria she will use to assess your effectiveness. Don't undermine your boss. And don't speak negatively of her to others.

Practicing the Skill

The following suggestions are activities you can do to practice the behaviors associated with acquiring power.

1. Keep a one-week journal of your behavior describing incidences when you tried to influence others around you. Assess each incident by asking: Were you successful at these attempts to influence them? Why or why not? What could you have done differently?
2. Review recent issues of a business periodical (such as *Bloomberg BusinessWeek, Fortune, Forbes, Fast Company, Industry Week,* or the *Wall Street Journal*). Look for articles on reorganizations, promotions, or departures from management positions. Find at least two articles where you believe power issues are involved. Relate the content of the articles to the concepts introduced in this skill module.

WORKING TOGETHER

Team Exercise

A company's future may well depend on how well it's able to learn.

Form small groups of three to four individuals. Your team's "job" is to find some current information on learning organizations. You'll probably be able to find numerous articles about the topic, but limit your report to five of what you consider to be the best sources of information on the topic. Using this information, write a one-page bulleted list discussing your reactions to the statement set in bold at the beginning of this exercise. Be sure to include bibliographic information for your five chosen articles at the end of your one-page bulleted list.

MY TURN TO BE A MANAGER

- Since you may be a telecommuter some time during your career (or may manage employees who are telecommuters), do some research on tips for making telecommuting work.
- Find the most current list of *Fortune*'s Best Companies to Work For (usually published in early February). Look through the list and tally how many of the top 50 provide some type of flexible work arrangements for their employees and the type of flexible work arrangements they use.
- Using current business periodicals, do some research on open innovation efforts by companies. Choose three examples of businesses using this and describe and evaluate what each is doing.
- Create a chart describing each adaptive organizational design discussed in this chapter along with what you perceive as potential advantages and disadvantages of each.
- Steve's and Mary's suggested readings: Richard Donkin, *The Future of Work* (Palgrave Macmillan, 2010); Philip Kotler and John A. Caslione, *Chaotics: The Business of Managing and Marketing in the Age of Turbulence* (Amacom, 2009); Paul Osterman, *The Truth About Middle Managers* (Harvard Business School Press, 2008); and Gary Hamel, *The Future of Management* (Harvard Business School Press, 2007).
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Well Do I Handle Ambiguity? Do I Trust Others? Do Others See Me as Trustworthy? How Well Do I Respond to Turbulent Change? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

In the Driver's Seat

The Ford Focus embodies the vision of CEO Alan Mulally for the automaker to operate as one team throughout the world with one plan and one goal. One of Mulally's key priorities is restructuring the company to achieve profitability in the highly competitive global auto industry.

One Ford . . . One Team . . . One Plan . . . One Goal.[63] Tens of thousands of Ford employees carry around these words with them on laminated wallet-sized cards. Why? These words reflect the vision CEO Alan Mulally has for the future of Ford Motor Company. And pursuing that vision has implications for how the company will be structured.

Mulally joined Ford Motor in September 2006 from Boeing, where he had led a successful turnaround effort. And Ford, facing serious challenges, needed someone like him. Between the fierce competition in the global car industry and the realities of its manufacturing and product development deficiencies, the company's financial condition was worsening. Family member Bill Ford "handpicked his successor as CEO, gambling that Alan Mulally's team-building skills and industrial savvy would inspire and embolden employees enough to revive the hard-up automaker."

Mulally's first move was to "immediately dust off his Boeing playbook" as he looked to implement many of the same strategies that had worked in turning around Boeing. Although he recognized the massive problems facing the company in achieving strategic competitiveness and profitability, he was determined to take the dramatic, painful steps and to "plow through gut-wrenching change" to transform the company and return it to global prominence. Guiding his initial efforts was the Way Forward plan that was first announced in January 2006 and the implementation of which was accelerated in September 2006 when Mulally was appointed CEO. This comprehensive plan addressed seven areas where strategic changes would be focused: bold leadership; customer focus; strong brands; bold, innovative products; great quality; clear pricing; and competitive costs and capacity. Mulally also identified four key priorities: (1) aggressively restructure the company to operate profitably at the current real demand and changing model mix; (2) accelerate product development with new products that customers really want and value while achieving manufacturing excellence by reducing complexity and improving quality; (3) obtain financing to do these things and improve the balance sheet; and (4) work together with accountability with all partners. In addition to the Way Forward plan, Mulally fashioned a strategic effort dubbed One Ford in an attempt to "fully leverage the tremendous worldwide resources of Ford." In his remarks to shareholders at the 2008 annual meeting, Mulally had this to say: "We operate in a fiercely competitive global industry. To achieve profitable growth we have to make the best use of our human resources and take advantage of every potential economy of scale and best practice we can find. That means operating as one team around the world, with one plan and one goal . . . One Ford . . . profitable growth for all." These efforts and priorities guided the company over the next few years.

Mulally's vision for Ford culminated at the 2010 Detroit auto show where he unveiled the car that "embodies his strategy for returning Ford to its status as a leader in the global auto industry." That car, the Focus, is Ford's first truly global car—a "single vehicle designed and engineered for customers in every region of the world and sold under one name." Mulally said, "If we were going to be world-class, we needed to pull together and leverage and use our global assets around the world to create a powerhouse 'One Ford'." He also expressed his hope that the vehicle will provide "a rolling blueprint for generations of Ford cars to come."

Discussion Questions

1. Describe and evaluate what Alan Mulally did at Ford Motor Company.
2. What structural implications arise from Mulally's description of Ford being world-class?
3. What types of adaptive organizational designs discussed in this chapter might be needed as Ford continues to pursue its vision of One Ford . . . One Team . . . One Plan . . . One Goal? For each design that you think is appropriate, describe what it is and how the company might use it.
4. What does this case story tell you about how a company's vision and plans affect its structure?

CASE APPLICATION 2

The Virus Hunters

"Imagine what life would be like if your product were never finished, if your work were never done, if your market shifted 30 times a day. The computer-virus hunters at Symantec Corp. don't have to imagine."[64] That's the reality of their daily worklife. At the company's Response Lab in Santa Monica, California, described as the "dirtiest of all our networks at Symantec," software analysts collect viruses and other suspicious code and try to figure out how they work so security updates can be provided to the company's customers. There's even a hazardous materials box by the door to the lab marked DANGER where they put all the disks, tapes, and hard drives with the nasty viruses that need to be completely disposed of. Symantec's situation may seem unique, but the company, which makes content and network security software for both consumers and businesses, reflects the realities facing many organizations today: quickly shifting customer expectations and continuously emerging global competitors that have drastically shortened product life cycles.

The launch of the Blaster-B worm changed the company's approach to dealing with viruses. The domino effect of Blaster-B and other viruses spawned by it meant that frontline software analysts were working around the clock for almost two weeks. The "employee burn-out" potential made the company realize that its virus-hunting team had to be much deeper talent-wise. Now, the response center's team numbers in the hundreds and managers rotate people from the front lines, where they're responsible for responding to new security threats that crop up, into groups where they can help with new-product development. Others write internal research papers. Still others are assigned to develop new tools that will help their colleagues battle the next wave of threats. There's even an individual who tries to figure out what makes the virus writers tick—and the day never ends for these virus hunters. When Santa Monica's team finishes its day, colleagues in Tokyo take over. When the Japanese team finishes its day, it hands off to Dublin, who then hands back to Santa Monica for the new day. It's a frenetic, chaotic, challenging work environment that spans the entire globe.

But the security experts realize that despite their team's best efforts, "they're losing the battle." They plan to add another line of defense and use the power of people to hunt down the cybercriminals by "recruiting victims and other computer users to help them go on the offensive and track down the hackers." Rowan Trollope, senior vice president for consumer products at Symantec, says, "It's time to stop building burglar alarms to keep people out and go after the bad guys." Thus, at the introduction of its new Norton Internet Security

system, Symantec is now asking customers to opt in to a program that will collect data about attempted computer intrusions and then forward the information to authorities.

Discussion Questions

1. How might the nature of what the virus hunters do affect the most appropriate structure for getting work done efficiently and effectively?
2. In fighting the onslaught of computer viruses, what will be the challenges of managing a team of professionals and a group of customer "volunteers"?
3. What types of adaptive organizational designs discussed in this chapter might be most appropriate for Symantec to most effectively manage its professionals and its customer volunteers? Explain your choices.

12 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Jose Quirarte
HR Manager
D&W Fine Pack, LLC
Fort Calhoun, NE

MY JOB:
I am the human resources manager for D&W Fine Pack, LLC, at the Fort Calhoun, Nebraska, location.

BEST PART OF MY JOB:
The ability to change people's lives by explaining how they can maximize their group health benefits, mentoring them to success, or changing the way people live their lives through continuous education and training that will allow them to become better individuals personally and professionally.

Managing Human Resources

LEARNING OUTCOMES

12.1 **Explain** the importance of the human resource management process and the external influences that might affect that process. *page 312*

12.2 **Discuss** the tasks associated with identifying and selecting competent employees. *page 318*

12.3 **Explain** the different types of orientation and training. *page 323*

12.4 **Describe** strategies for retaining competent, high-performing employees. *page 326*

12.5 **Discuss** contemporary issues in managing human resources. *page 328*

WORST PART OF MY JOB:

As a workers' compensation administrator, I find it difficult to interact with employees who have suffered a work-related injury. This is the worst part of my job because I don't like seeing my employees get injured, causing them to change the way they live their lives and interact with their family members. I try to overcome this by always discussing the importance of thinking about safety prior to performing any given task.

BEST MANAGEMENT ADVICE EVER RECEIVED:

"Choose your own battles." I am passionate about my field and love to make a difference in the way people live their lives and to influence them to make the right choices at and away from work. Sometimes I let my passion take over and seek perfection in everything that I do. During a stressful time, a manager told me, "Choose your own battles," meaning, I must pursue the things that will have an overall impact on the organization and those things that will allow the HR department to become a better strategic partner.

A Manager's Dilemma

It's probably one of the hardest things a manager may have to do.[1] Telling an employee that he or she is being laid off. And some 8 million Americans who have been laid off since the economic recession began in early 2008 have been given that news by someone. In smaller businesses, it's especially difficult because it's often more personal and employees are more like family. In delivering that news, managers may fear that employees will get highly emotional or angry, although those reactions don't happen often. Such reactions are more likely when workers have no notice that layoffs are coming. That's when the situation can become especially raw as those being laid off respond with expressions of shock and disbelief and sometimes crying.

At Ram Tool, a small family-owned manufacturing company in Grafton, Wisconsin, the task fell to Shelly Polum, the company's vice president of administration. After the nine-member management team met to consider which employees would be laid off, Shelly had to inform four workers that they were being let go. "When it was over, trying to maintain her composure, she rushed back to her office and shut the door quickly. Then she sank to the floor and burst into tears." How could this process be made less stressful?

What Would You Do?

With the organization's structure in place, managers have to find people to fill the jobs that have been created or to remove people from jobs if business circumstances require. That's where human resource management (HRM) comes in. It's an important task that involves having the right number of the right people in the right place at the right time. In this chapter, we'll look at the process managers use to do just that. In addition, we'll look at some contemporary HRM issues facing managers.

A major HRM challenge for managers is ensuring that their company has a high-quality workforce. Getting and keeping competent and talented employees is critical to the success of every organization, whether an organization is just starting or has been in business for years. If an organization doesn't take its HRM responsibilities seriously, performance may suffer. Therefore, part of every manager's job when organizing is human resource management. All managers engage in some HRM activities such as interviewing job candidates, orienting new employees, and evaluating their employees' work performance, even if there is a separate HRM department.

LEARNING OUTCOME 12.1

Explain the importance of the human resource management process and the external influences that might affect that process.

The Human Resource Management Process

"At L'Oreal, success starts with people. Our people are our most precious asset. Respect for people, their ideas and differences, is the only path to our sustainable long-term growth."[2] Many organizations profess that their people are their most important asset and acknowledge the important role that employees play in organizational success. However, why is HRM important and what external factors influence the HRM process?

Why Is HRM Important?

HRM is important for three reasons. First, it can be a significant source of competitive advantage as various studies have concluded.[3] And that's true for organizations around the world, not just U.S. firms. The Human Capital Index, a comprehensive study of more than 2,000 global firms, concluded that people-oriented HR gives an organization an edge by creating superior shareholder value.[4]

Second, HRM is an important part of organizational strategies. Achieving competitive success through people means managers must change how they think about their employees

and how they view the work relationship. They must work with people and treat them as partners, not just as costs to be minimized or avoided. That's what people-oriented organizations such as Southwest Airlines and W. L. Gore do.

Finally, the way organizations treat their people has been found to significantly impact organizational performance.[5] For instance, one study reported that improving work practices could increase market value by as much as 30 percent.[6] Another study that tracked average annual shareholder returns of companies on *Fortune's* list of 100 Best Companies to Work For found that these companies significantly beat the S&P 500 over 10-year, 5-year, 3-year, and 1-year periods.[7] Work practices that lead to both high individual and high organizational performance are known as **high-performance work practices**. (See some examples in Exhibit 12-1.) The common thread among these practices seems to be a commitment to involving employees; improving the knowledge, skills, and abilities of an organization's employees; increasing their motivation; reducing loafing on the job; and enhancing the retention of quality employees while encouraging low performers to leave.

Even if an organization doesn't use high-performance work practices, other specific HRM activities must be completed in order to ensure that the organization has qualified people to perform the work that needs to be done—activities that comprise the HRM process. Exhibit 12-2 shows the eight activities in this process. The first three activities ensure that competent employees are identified and selected; the next two involve providing employees with up-to-date knowledge and skills; and the final three ensure that the organization retains competent and high-performing employees. Before we discuss those specific activities, we need to look at external factors that affect the HRM process.

External Factors That Affect the HRM Process

The administrative assistant job opening paying $13 an hour at a Burns Harbor, Indiana, truck driver training school for C. R. England, a nationwide trucking company, was posted on a Friday afternoon.[8] By the time the company's head of corporate recruiting arrived at work on Monday morning, there were about 300 applications in the company's e-mail inbox. And an inch-and-a-half stack of résumés was piled up by the now out-of-paper fax machine. Out of those 500 plus applicants, one person, who had lost her job

EXHIBIT 12-1
High-Performance Work Practices

- Self-managed teams
- Decentralized decision making
- Training programs to develop knowledge, skills, and abilities
- Flexible job assignments
- Open communication
- Performance-based compensation
- Staffing based on person–job and person–organization fit
- Extensive employee involvement
- Giving employees more control over decision making
- Increasing employee access to information

Sources: C. H. Chuang and H. Liao, "Strategic Human Resource Management in Service Context: Taking Care of Business by Taking Care of Employees and Customers," *Personnel Psychology,* Spring 2010, pp. 153–196; M. Subramony, "A Meta-Analytic Investigation of the Relationship Between HRM Bundles and Firm Performance," *Human Resource Management,* September–October 2009, pp. 745–768; M. M. Butts et al., "Individual Reactions to High Involvement Work Practices: Investigating the Role of Empowerment and Perceived Organizational Support," *Journal of Occupational Health Psychology,* April 2009, pp. 122–136; and W. R. Evans and W. D. Davis, "High-Performance Work Systems and Organizational Performance: The Mediating Role of Internal Social Structure," *Journal of Management,* October 2005, p. 760.

high-performance work practices
Work practices that lead to both high individual and high organizational performance

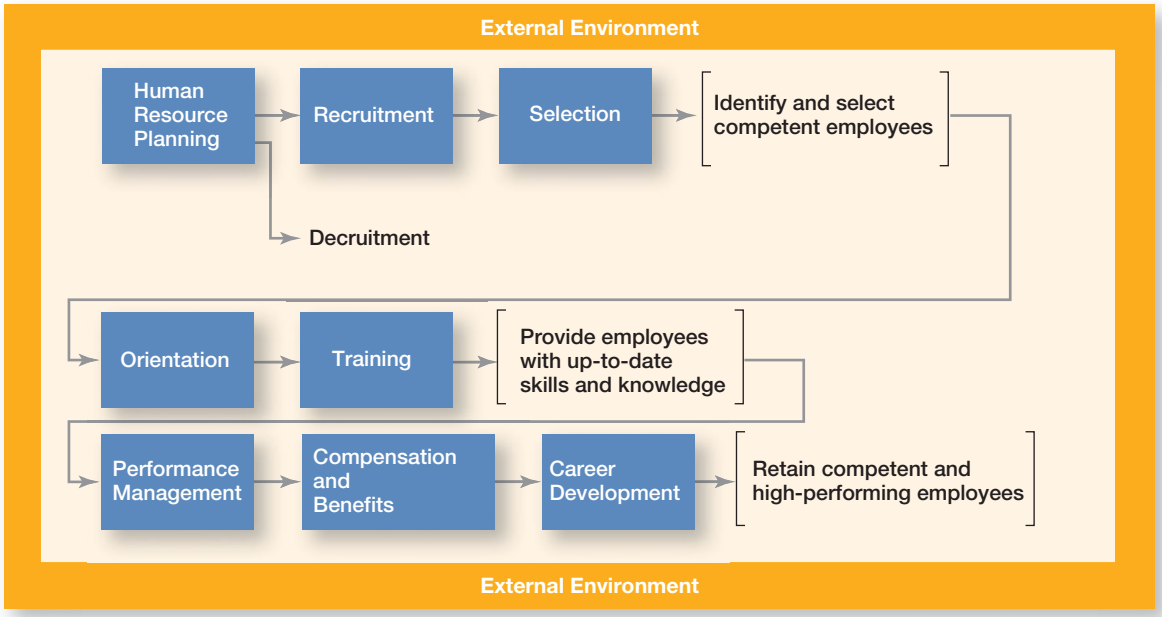


EXHIBIT 12-2
HRM Process

four months earlier, impressed the hiring manager so much that the job was hers, leaving the remaining 499 plus people, including a former IBM analyst with 18 years' experience, a former director of human resources, and someone with a master's degree and 12 years' experience at accounting firm Deloitte & Touche, still searching for a job. This is not a unique example. The economic slowdown has made filling a job opening an almost mind-boggling exercise.

Such is the new reality facing HRM. The entire HRM process is influenced by the external environment. Those factors most directly influencing it include the economy, employee labor unions, governmental laws and regulations, and demographic trends.

THE ECONOMY'S EFFECT ON HRM. The global economic downturn has left what many experts believe to be an enduring mark on HRM practices worldwide. For instance, in Japan, workers used to count on two things: a job for life and a decent pension. Now, lifetime employment is long gone and corporate pension plans are crumbling.[9] In European Union member countries, it's anticipated that the jobless rate will continue to increase, with Spain being hit hardest.[10] And in Thailand, employees in the automotive industry dealt with reduced work hours, which affected their pay and their skill upgrades.[11] In the United States, labor economists say that although jobs may be coming back slowly, they aren't the same ones that employees were used to. Many of these jobs are temporary or contract positions, rather than full-time jobs with benefits. And many of the more than 8.4 million jobs lost during the recession aren't coming back at all, but may be replaced by other types of work in growing industries.[12] All of these changes have affected employers and workers. A Global Workforce Study survey by global professional services company Towers Watson confirmed that the recession has "fundamentally altered the way U.S. employees view their work and leaders. . . . U.S. workers have dramatically lowered their career and retirement expectations for the foreseeable future."[13] Such findings have profound implications for how an organization manages its human resources.

EMPLOYEE LABOR UNIONS. A planned series of three five-day work stoppages by Unite, the union representing British Airways cabin crews, had the potential for a serious negative effect on Europe's third-largest airline in an industry already struggling from the prolonged economic downturn.[14] If negotiations between management and the union didn't resolve the disputes over work practices, then employees vowed to hit the airline with more strikes

during the busy summer period. Then, in China, strikes at Honda and Toyota factories highlighted that country's struggle with income inequality, rising inflation, and soaring property prices. Factory workers, who had been "pushed to work 12-hour days, six days a week on monotonous low-wage assembly line tasks, are pushing back."[15] Work stoppages, labor disputes, and negotiations between management and labor are just a few of the challenges organizations and managers face when their workforce is unionized.

A **labor union** is an organization that represents workers and seeks to protect their interests through collective bargaining. In unionized organizations, many HRM decisions are dictated by collective bargaining agreements, which usually define things such as recruitment sources; criteria for hiring, promotions, and layoffs; training eligibility; and disciplinary practices. Due to information availability, it's difficult to pin down how unionized global workforces are. Current estimates are that about 12.3 percent of the U.S. workforce is unionized.[16] But the percentage of unionized workers tends to be higher in other countries except in France, where some 9.6 percent of workers are unionized. For instance, in Japan, some 19.6 percent of the labor force belongs to a union; in Germany, 27 percent; in Denmark, 75 percent; in Australia, 27.4 percent; in Canada, 30.4 percent; and in Mexico, 19 percent.[17] One union membership trend we're seeing, especially in the more industrialized countries, is that the rate in private enterprise is declining while that in the public sector (which includes teachers, police officers, firefighters, and government workers) is climbing. Although labor unions can affect an organization's HRM practices, the most significant environmental constraint is governmental laws, especially in North America.

LEGAL ENVIRONMENT OF HRM. $250 million. That's the amount a New York City jury awarded in punitive damages to plaintiffs who claim drug company Novartis AG discriminated against women.[18] Billions of dollars. That's the staggering amount that Walmart stores could potentially be liable for in a class-action sex discrimination suit.[19] As you can see, an organization's HRM practices are governed by a country's laws. (See Exhibit 12-3 for some of the important U.S. laws that affect the HRM process.) For example, decisions regarding who will be hired or which employees will be chosen for a training program or what an employee's compensation will be must be made without regard to race, sex, religion, age, color, national origin, or disability. Exceptions can occur only in special circumstances. For instance, a community fire department can deny employment to a firefighter applicant who is confined to a wheelchair; but if that same individual is applying for a desk job, such as a dispatcher, the disability cannot be used as a reason to deny employment. The issues, however, are rarely that clear-cut. For example, employment laws protect most employees whose religious beliefs require a specific style of dress—robes, long shirts, long hair, and the like. However, if the specific style of dress may be hazardous or unsafe in the work setting (such as when operating machinery), a company could refuse to hire a person who won't adopt a safer dress code.

As you can see, a number of important laws and regulations affect what you can and cannot do legally as a manager. Because workplace lawsuits are increasingly targeting supervisors, as well as their organizations, managers must know what they can and cannot do by law.[20] Trying to balance the "shoulds and should-nots" of many laws often falls within the realm of **affirmative action**. Many U.S. organizations have affirmative action programs to ensure that decisions and practices enhance the employment, upgrading, and retention of members from protected groups such as minorities and females. That is, an organization refrains from discrimination and actively seeks to enhance the status of members from protected groups. However, U.S. managers are not completely free to choose whom they hire, promote, or fire, or free to treat employees any way they want. Although laws have helped reduce employment discrimination and unfair work practices, they have, at the same time, reduced managers' discretion over HRM decisions.

labor union
An organization that represents workers and seeks to protect their interests through collective bargaining

affirmative action
Organizational programs that enhance the status of members of protected groups

Laws		
Law or Ruling	**Year**	**Description**
Equal Employment Opportunity and Discrimination		
Equal Pay Act	1963	Prohibits pay differences for equal work based on gender
Civil Rights Act, Title VII	1964 (amended in 1972)	Prohibits discrimination based on race, color, religion, national origin, or gender.
Age Discrimination in Employment Act	1967 (amended in 1978)	Prohibits discrimination against employees 40 years and older
Vocational Rehabilitation Act	1973	Prohibits discrimination on the basis of physical or mental disabilities
Americans with Disabilities Act	1990	Prohibits discrimination against individuals who have disabilities or chronic illnesses; also requires reasonable accommodations for these individuals
Compensation/Benefits		
Worker Adjustment and Retraining Notification Act	1990	Requires employers with more than 100 employees to provide 60 days' notice before a mass layoff or facility closing
Family and Medical Leave Act	1993	Gives employees in organizations with 50 or more employees up to 12 weeks of unpaid leave each year for family or medical reasons
Health Insurance Portability and Accountability Act	1996	Permits portability of employees' insurance from one employer to another
Lilly Ledbetter Fair Pay Act	2009	Changes the statute of limitations on pay discrimination to 180 days from each paycheck
Health/Safety		
Occupational Safety and Health Act (OSHA)	1970	Establishes mandatory and health standards in organizations
Privacy Act	1974	Gives employees the legal right to examine personnel files and letters of reference
Consolidated Omnibus Reconciliation Act (COBRA)	1985	Requires continued health coverage following termination (paid by employee)

EXHIBIT 12-3
Major HRM Laws

We do want to mention three current U.S. laws—one has been signed by the president and the other two are still being debated in Congress—that each have the potential to affect future HRM practices. The first of these, the Patient Protection and Affordable Care Act (commonly called the Health Care Reform Act), was signed into law in March 2010.[21] Employers are beginning to sort through the requirements of the law and the deadlines for compliance. For instance, one employer disclosure requirement says that by 2012, all employers must disclose the value of the benefits they provided in 2011 for each employee's health insurance coverage on the employees' annual Form W-2s. Other parts of the law include compliance deadlines for additional specific information that must be disclosed or provided and protections for employees who provide information or testimony about possible employer violations of Title 1 of the law.[22] Another proposed law—the Work–Life Balance Award Act—is still being debated. This particular piece of legislation would highlight the importance of workplace flexibility issues.[23] The other proposed law stalled in Congressional debates—the Employee Free Choice Act—would amend the National Labor Relations Act and make it easier for workers to form a union.[24]

What about HRM laws globally? It's important that managers in other countries be familiar with the specific laws that apply there. Let's take a look at some of the federal legislation in countries such as Canada, Mexico, Australia, and Germany.

Canadian laws pertaining to HRM practices closely parallel those in the United States. The Canadian Human Rights Act prohibits discrimination on the basis of race, religion,

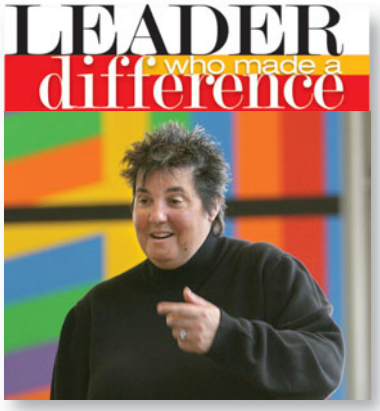
age, marital status, sex, physical or mental disability, or national origin. This act governs practices throughout the country. Canada's HRM environment, however, is somewhat different from that in the United States in that it involves more decentralization of lawmaking to the provincial level. For example, discrimination on the basis of language is not prohibited anywhere in Canada except in Quebec.

In Mexico, employees are more likely to be unionized than they are in the United States. Labor matters in Mexico are governed by the Mexican Federal Labor Law. One hiring law states that an employer has 28 days to evaluate a new employee's work performance. After that period, the employee is granted job security and termination is quite difficult and expensive. Those who violate the Mexican Federal Labor Law are subject to severe penalties, including criminal action that can result in steep fines and even jail sentences for employers who fail to pay, for example, the minimum wage.

Australia's discrimination laws were not enacted until the 1980s, and generally apply to discrimination and affirmative action for women. Yet, gender opportunities for women in Australia appear to lag behind those in the United States. In Australia, however, a significant proportion of the workforce is unionized. The higher percentage of unionized workers has placed increased importance on industrial relations specialists in Australia, and reduced the control of line managers over workplace labor issues. In 1997, Australia overhauled its labor and industrial relations laws with the objective of increasing productivity and reducing union power. The Workplace Relations Bill gives employers greater flexibility to negotiate directly with employees on pay, hours, and benefits. It also simplifies federal regulation of labor–management relations.

Our final example, Germany, is similar to most Western European countries when it comes to HRM practices. Legislation requires companies to practice representative participation, in which the goal is to redistribute power within the organization, putting labor on a more equal footing with the interests of management and stockholders. The two most common forms of representative participation are work councils and board representatives. **Work councils** link employees with management. They are groups of nominated or elected employees who must be consulted when management makes decisions involving personnel. **Board representatives** are employees who sit on a company's board of directors and represent the interests of the firm's employees.

DEMOGRAPHIC TRENDS. Back in 2007, the head of BMW's 2,500-employee power train plant in Dingolfing, Lower Bavaria, was worried about the potential inevitable future decline in productivity due to an aging workforce.[26] That's when company executives decided to redesign its factory for older workers. With input from employees, they implemented physical changes to the workplace—for instance, new wooden floors to reduce joint strain and special chairs for sitting down or relaxing for short periods—that would reduce wear and tear on workers' bodies. As this example shows, demographic trends are impacting HRM practices, worldwide and in the United States.



Lisa Brummel, a successful Microsoft product development manager with no HR experience, was named HR chief in 2005. Her mandate: improve the mood around here.[25] Lisa, who had always been a strong people leader, stepped up to do just that and looked for ways that the company could reshape HR at Microsoft. With any HR issue that arose, Lisa used her people skills to find a solution. For instance, one thing she did was to introduce innovative office designs that allowed employees to reconfigure their workspaces for the task they were working on. The customized workspaces included options such as sliding doors, movable walls, and features that made the space seem more like an urban loft than an office. When beginning a workspace redesign, "employees are first divided into four worker types: providers (the godfathers of work groups), travelers (the types who work anywhere but work), concentrators (head-down, always-at-work types), and orchestrators (the company's natural diplomats)." Based on their "type," employees then pick the kind of workspace that works best for them. By allowing their creative, quirky, and talented people freedom to design their workspaces, the company was able to give them some control over their chaotic and often hectic environment.

work councils
Groups of nominated or elected employees who must be consulted when management makes decisions involving personnel

board representatives
Employees who sit on a company's board of directors and represent the interests of the firm's employees

Much of the change in the U.S. workforce over the last 50 years can be attributed to federal legislation enacted in the 1960s that prohibited employment discrimination. With these laws, avenues opened up for minority and female job applicants. These two groups dramatically changed the workplace in the latter half of the twentieth century. Women, in particular, have changed the composition of the workforce as they now hold some 49.1 percent of jobs. And that percentage may increase as some 82 percent of jobs lost during the economic crisis were ones held by men. Why the disproportion? Because women tend to be employed in education and health care industries, which are less sensitive to economic ups and downs.[27] If this trend continues, women are set to become the majority group in the workforce.

Workforce trends in the first half of the twenty-first century will be notable for three reasons: (1) changes in racial and ethnic composition, (2) an aging baby boom generation, and (3) an expanding cohort of Gen Y workers. By 2050, Hispanics will grow from today's 13 percent of the workforce to 24 percent; blacks will increase from 12 percent to 14 percent, and Asians will increase from 5 percent to 11 percent. Meanwhile, the labor force is aging. The 55-and-older age group, which currently makes up 13 percent of the workforce, will increase to 20 percent by 2014. However, labor force analysts who had predicted a mass exodus of baby boomers into retirement have pulled back somewhat on those forecasts, especially since many baby boomers lost significant personal financial resources as the economy and stock market floundered. Many baby boomers are postponing retirement until they can better afford it. Another group that's having a significant impact on today's workforce is Gen Y, a population group that includes individuals born from about 1978 to 1994. Gen Y has been the fastest-growing segment of the workforce—increasing from 14 percent to over 24 percent. With Gen Y now in the workforce, analysts point to the four generations that are working side-by-side in the workplace[28]:

- The oldest, most experienced workers (those born before 1946) make up 6 percent of the workforce.
- The baby boomers (those born between 1946 and 1964) make up 41.5 percent of the workforce.
- Gen Xers (those born 1965 to 1977) make up almost 29 percent of the workforce.
- Gen Yers (those born 1978 to 1994) make up almost 24 percent of the workforce.

These and other demographic trends are important because of the impact they're having on current and future HRM practices.

Let's Get Real

HRM responsibilities I have include:

- Promote the company's safety program.
- Oversee the hiring process.
- Oversee and assist in the execution of the plant's affirmative action plan.
- Ensure compliance with state and federal laws and regulations.
- Develop and conduct employee training to minimize skill gaps.
- Address employee concerns and resolve complaints.
- Implement ideas that will allow the HR department become a better strategic partner within the organization.

LEARNING OUTCOME 12.2

Discuss the tasks associated with identifying and selecting competent employees.

Identifying and Selecting Competent Employees

Is a job in the insurance industry on your list of jobs you'll apply for after graduation? Unfortunately for the insurance industry, it's not for many college graduates. Like many other nonglamorous industries including transportation, utilities, and manufacturing, the insurance industry is not "particularly attractive to the so-called 'millennials'—people who turned 21 in 2000 or later." In all these industries, the number of skilled jobs is already starting to overtake the number of qualified people available to fill them.[29]

Every organization needs people to do whatever work is necessary for doing what the organization is in business to do. How do they get those people? And more importantly, what can they do to ensure they get competent, talented people? This first phase of the HRM process involves three tasks: human resource planning, recruitment and decruitment, and selection.

Human Resource Planning

Human resource planning is the process by which managers ensure that they have the right number and kinds of capable people in the right places and at the right times. Through

planning, organizations avoid sudden people shortages and surpluses.[30] HR planning entails two steps: (1) assessing current human resources, and (2) meeting future HR needs.

CURRENT ASSESSMENT. Managers begin HR planning by inventorying current employees. This inventory usually includes information on employees such as name, education, training, prior employment, languages spoken, special capabilities, and specialized skills. Sophisticated databases make getting and keeping this information quite easy. For example, Stephanie Cox, Schlumberger's director of personnel for North and South America, uses a company planning program called PeopleMatch to help pinpoint managerial talent. Suppose that she needs a manager for Brazil. She types in the qualifications: someone who can relocate, speak Portuguese, and is a "high potential" employee. Within a minute, 31 names of possible candidates pop up.[31] That's what good HR planning should do—help managers identify the people they need.

An important part of a current assessment is **job analysis**, an assessment that defines a job and the behaviors necessary to perform it. For instance, what are the duties of a level 3 accountant who works for Kodak? What minimal knowledge, skills, and abilities are necessary to adequately perform this job? How do these requirements compare with those for a level 2 accountant or for an accounting manager? Information for a job analysis is gathered by directly observing individuals on the job, interviewing employees individually or in a group, having employees complete a questionnaire or record daily activities in a diary, or having job "experts" (usually managers) identify a job's specific characteristics.

Using this information from the job analysis, managers develop or revise job descriptions and job specifications. A **job description** is a written statement describing a job—typically job content, environment, and conditions of employment. A **job specification** states the minimum qualifications that a person must possess to successfully perform a given job. It identifies the knowledge, skills, and attitudes needed to do the job effectively. Both the job description and job specification are important documents when managers begin recruiting and selecting.

MEETING FUTURE HR NEEDS. Future HR needs are determined by the organization's mission, goals, and strategies. Demand for employees results from demand for the organization's products or services. For instance, Corning's expansion into developing countries was slowed by the lack of qualified employees. To continue its growth strategy, it had to plan how to find those qualified employees.[32]

After assessing both current capabilities and future needs, managers can estimate areas in which the organization will be understaffed or overstaffed. Then they're ready to proceed to the next step in the HRM process.

Recruitment and Decruitment

Competition for talent by India's two largest technology outsourcing companies has led to an all-out recruiting war. In the United States, the tech sector is also in a hiring push pitting start-up companies against giants such as Google and Intel in the hunt for employees.[33]

If employee vacancies exist, managers should use the information gathered through job analysis to guide them in **recruitment**—that is, locating, identifying, and attracting capable applicants.[34] On the other hand, if HR planning shows a surplus of employees, managers may want to reduce the organization's workforce through **decruitment**.[35]

human resource planning
Ensuring that the organization has the right number and kinds of capable people in the right places and at the right times

job analysis
An assessment that defines jobs and the behaviors necessary to perform them

job description
A written statement that describes a job

job specification
A written statement of the minimum qualifications that a person must possess to perform a given job successfully

recruitment
Locating, identifying, and attracting capable applicants

decruitment
Reducing an organization's workforce

EXHIBIT 12-4
Recruiting Sources

Source	Advantages	Disadvantages
Internet	Reaches large numbers of people; can get immediate feedback	Generates many unqualified candidates
Employee referrals	Knowledge about the organization provided by current employee; can generate strong candidates because a good referral reflects on the recommender	May not increase the diversity and mix of employees
Company Web site	Wide distribution; can be targeted to specific groups	Generates many unqualified candidates
College recruiting	Large centralized body of candidates	Limited to entry-level positions
Professional recruiting organizations	Good knowledge of industry challenges and requirements	Little commitment to specific organization

RECRUITMENT. Some organizations have interesting approaches to finding employees. For instance, Microsoft launched a new Web site that integrated 103 country sites into one career-related site. There, potential applicants find employee blogs on everything from interview tips to whether a failed start-up on a résumé hurts in applying for a job at the company.[36] Even though Google receives 3,000 applications a day and can afford to be picky about whom it hires, it still needs qualified computer science and engineering candidates. One fun thing the company does is Google Games, a day devoted to student team competitions on the company's campus.[37] Accounting firm Deloitte & Touche created its Deloitte Film Festival to get employee team-produced films about "life" at Deloitte to use in college recruiting.[38] Exhibit 12-4 explains different recruitment sources managers can use to find potential job candidates.[39]

Although online recruiting is popular and allows organizations to identify applicants cheaply and quickly, applicant quality may not be as good as other sources. Research has found that employee referrals generally produce the best candidates.[40] Why? Because current employees know both the job and the person being recommended, they tend to refer applicants who are well qualified. Also, current employees often feel their reputation is at stake and refer others only when they're confident that the person will not make them look bad.

DECRUITMENT. The other approach to controlling labor supply is decruitment, which is not a pleasant task for any manager. Decruitment options are shown in Exhibit 12-5. Although employees can be fired, other choices may be better. However, no matter how you do it, it's never easy to reduce an organization's workforce.

EXHIBIT 12-5
Decruitment Options

Option	Description
Firing	Permanent involuntary termination
Layoffs	Temporary involuntary termination; may last only a few days or extend to years
Attrition	Not filling openings created by voluntary resignations or normal retirements
Transfers	Moving employees either laterally or downward; usually does not reduce costs but can reduce intraorganizational supply–demand imbalances
Reduced workweeks	Having employees work fewer hours per week, share jobs, or perform their jobs on a part-time basis
Early retirements	Providing incentives to older and more senior employees for retiring before their normal retirement date
Job sharing	Having employees share one full-time position

Selection

Once you have a pool of candidates, the next step in the HRM process is **selection**, screening job applicants to determine who is best qualified for the job. Managers need to "select" carefully since hiring errors can have significant implications. For instance, a driver at Fresh Direct, an online grocer that delivers food to masses of apartment-dwelling New Yorkers, was charged with, and later pled guilty to, stalking and harassing female customers.[41] At T-Mobile, lousy customer service led to its last-place ranking in the J.D. Power's customer-satisfaction survey. The first step in a total overhaul of the customer service area was revamping the company's hiring practices to increase the odds of hiring employees who would be good at customer service.[42]

WHAT IS SELECTION? Selection involves predicting which applicants will be successful if hired. For example, in hiring for a sales position, the selection process should predict which applicants will generate a high volume of sales. As shown in Exhibit 12-6, any selection decision can result in four possible outcomes—two correct and two errors.

A decision is correct when the applicant was predicted to be successful and proved to be successful on the job, or when the applicant was predicted to be unsuccessful and was not hired. In the first instance, we have successfully accepted; in the second, we have successfully rejected.

Problems arise when errors are made in rejecting candidates who would have performed successfully on the job (reject errors) or accepting those who ultimately perform poorly (accept errors). These problems can be significant. Given today's HR laws and regulations, reject errors can cost more than the additional screening needed to find acceptable candidates. Why? Because they can expose the organization to discrimination charges, especially if applicants from protected groups are disproportionately rejected. For instance, two written firefighter exams used by the New York City Fire Department were found to have had a disparate impact on black and Hispanic candidates.[43] On the other hand, the costs of accept errors include the cost of training the employee, the profits lost because of the employee's incompetence, the cost of severance, and the subsequent costs of further recruiting and screening. The major emphasis of any selection activity should be reducing the probability of reject errors or accept errors while increasing the probability of making correct decisions. Managers do this by using selection procedures that are both valid and reliable.

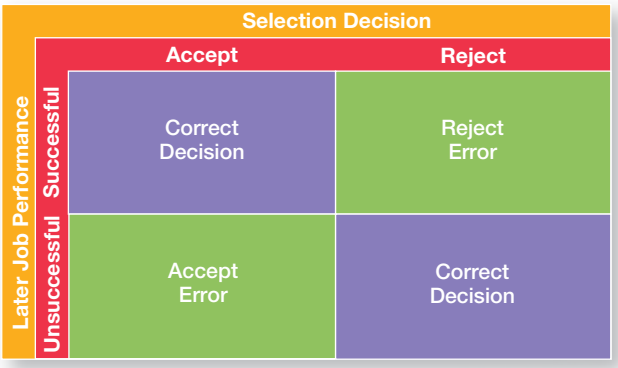


EXHIBIT 12-6
Selection Decision Outcomes

selection
Screening job applicants to ensure that the most appropriate candidates are hired

VALIDITY AND RELIABILITY. A valid selection device is characterized by a proven relationship between the selection device and some relevant criterion. Federal employment laws prohibit managers from using a test score to select employees unless clear evidence shows that, once on the job, individuals with high scores on this test outperform individuals with low test scores. The burden is on managers to support that any selection device they use to differentiate applicants is validly related to job performance.

A reliable selection device indicates that it measures the same thing consistently. On a test that's reliable, any single individual's score should remain fairly consistent over time, assuming that the characteristics being measured are also stable. No selection device can be effective if it's not reliable. Using such a device would be like weighing yourself every day on an erratic scale. If the scale is unreliable—randomly fluctuating, say 5 to 10 pounds every time you step on it—the results don't mean much.

A growing number of companies are adopting a new measure of recruitment effectiveness called "quality of fill."[44] This measure looks at the contributions of good hires versus those of hires who have failed to live up to their potential. Five key factors are considered in defining this quality measure: employee retention, performance evaluations, number of first-year hires who make it into high-potential training programs, number of employees who are promoted, and what surveys of new hires indicate. Such measures help an organization assess whether its selection process is working well.

TYPES OF SELECTION TOOLS. The best-known selection tools include application forms, written and performance-simulation tests, interviews, background investigations, and in some cases, physical exams. Exhibit 12-7 lists the strengths and weaknesses of each.[45] Because many selection tools have limited value for making selection decisions, managers should use ones that effectively predict performance for a given job.

EXHIBIT 12-7
Selection Tools

Application Forms
- Almost universally used
- Most useful for gathering information
- Can predict job performance but not easy to create one that does

Written Tests
- Must be job related
- Include intelligence, aptitude, ability, personality, and interest tests
- Are popular (e.g., personality tests; aptitude tests)
- Relatively good predictor for supervisory positions

Performance-Simulation Tests
- Use actual job behaviors
- Work sampling—test applicants on tasks associated with that job; appropriate for routine or standardized work
- Assessment center—simulate jobs; appropriate for evaluating managerial potential

Interviews
- Almost universally used
- Must know what can and cannot be asked
- Can be useful for managerial positions

Background Investigations
- Used for verifying application data—valuable source of information
- Used for verifying reference checks—not a valuable source of information

Physical Examinations
- Are for jobs that have certain physical requirements
- Mostly used for insurance purposes

REALISTIC JOB PREVIEWS. One thing managers need to carefully watch is how they portray the organization and the work that an applicant will be doing. If they tell applicants only the good aspects, they're likely to have a workforce that's dissatisfied and prone to high turnover.[46] Negative things can happen when the information an applicant receives is excessively inflated. First, mismatched applicants probably won't withdraw from the selection process. Second, inflated information builds unrealistic expectations so new employees may quickly become dissatisfied and leave the organization. Third, new hires become disillusioned and less committed to the organization when they face the unexpected harsh realities of the job. In addition, these individuals may feel that they were misled during the hiring process and then become problem employees.

To increase employee job satisfaction and reduce turnover, managers should consider a **realistic job preview (RJP)**, which is one that includes both positive and negative information about the job and the company. For instance, in addition to the positive comments typically expressed during an interview, the job applicant might be told that there are limited opportunities to talk to coworkers during work hours, that promotional advancement is unlikely, or that work hours are erratic and they may have to work weekends. Research indicates that applicants who receive an RJP have more realistic expectations about the jobs they'll be performing and are better able to cope with the frustrating elements than are applicants who receive only inflated information.

Providing Employees with Needed Skills and Knowledge

12.3 LEARNING OUTCOME
Explain the different types of orientation and training.

As one of the nation's busiest airports, Miami International Airport served nearly 34 million passengers in 2009. But Miami International is doing something that no other airport has done. It's "trying to persuade disparate groups of employees to think and act as ambassadors for regional tourism. Airport workers in all jobs are learning the importance of finding solutions to the myriad issues that beset travelers on their way to and from Miami." Accomplishing that means that all employees who work on airport grounds are required to master customer service through a series of tourism training efforts. The required training is tied to renewal of airport ID badges, providing a critical incentive for employees to participate.[47]

If we've done our recruiting and selecting properly, we should have hired competent individuals who can perform successfully on the job. But successful performance requires more than possessing certain skills. New hires must be acclimated to the organization's culture and be trained and given the knowledge to do the job in a manner consistent with the organization's goals. Current employees, like those at Miami International Airport, may have to complete training programs to improve or update their skills. For these acclimation and skill improvement tasks, HRM uses orientation and training.

Orientation

Did you participate in some type of organized "introduction to college life" when you started school? If so, you may have been told about your school's rules and the procedures for activities such as applying for financial aid, cashing a check, or registering for classes; and you were probably introduced to some of the college administrators. A person starting a new job needs the same type of introduction to his or her job and the organization. This introduction is called **orientation**.

There are two types of orientation. *Work unit orientation* familiarizes the employee with the goals of the work unit, clarifies how his or her job contributes to the unit's

realistic job preview (RJP)
A preview of a job that provides both positive and negative information about the job and the company

orientation
Introducing a new employee to his or her job and the organization

goals, and includes an introduction to his or her new coworkers. *Organization orientation* informs the new employee about the company's goals, history, philosophy, procedures and rules. It should also include relevant HR policies and maybe even a tour of the facilities.

Many organizations have formal orientation programs, while others use a more informal approach in which the manager assigns the new employee to a senior member of the work group who introduces the new hire to immediate coworkers and shows him or her where important things are located. And then there are intense orientation programs like that at Randstad USA, a staffing company based in Atlanta. The company's 16-week program covers everything from the company's culture to on-the-job training. The executive in charge of curriculum development says, "It's a very defined process. It's not just about what new hires have to learn and do, but also about what managers have to do."[48] And managers do have an obligation to effectively and efficiently integrate any new employee into the organization. They should openly discuss mutual obligations of the organization and the employee.[49] It's in the best interests of both the organization and the new employee to get the person up and running in the job as soon as possible. Successful orientation results in an outsider-insider transition that makes the new employee feel comfortable and fairly well adjusted, lowers the likelihood of poor work performance, and reduces the probability of a surprise resignation only a week or two into the job.

Employee Training

On the whole, planes don't cause airline accidents, people do. Most collisions, crashes, and other airline mishaps—nearly three-quarters of them—result from errors by the pilot or air traffic controller, or from inadequate maintenance. Weather and structural failures typically account for the remaining accidents.[51] We cite these statistics to illustrate the importance of training in the airline industry. Such maintenance and human errors could be prevented or significantly reduced by better employee training, as shown by the amazing "landing" of US Airways Flight 1549 in the Hudson River in January 2009 with no loss of life. Pilot Captain Chesley Sullenberger attributed the positive outcome to the extensive and intensive training that all pilots and flight crews undergo.[52] At management and technology consulting firm BearingPoint, the ethics and compliance training program became a series of fictional films modeled after *The Office*, even with a "Michael Scott-esque leader."[53] The film episodes were an immediate sensation in the company with comments like, "This is the best training I've ever had" or "I think that episode was based on my team." The new episodes became so popular that employees started tracking them down on the company's staging server, which is pretty amazing considering these training videos covered issues that most employees find boring even though it's critical information. Everything that employees at Ruth's Chris Steak House restaurants need to know can be found on sets of 4 × 8½-inch cards. Whether it's a recipe for caramelized banana cream pie or how to acknowledge customers, it's on the cards. And since the cards for all jobs are readily available, employees know the behaviors and skills it takes to get promoted. It's a unique approach to employee training, but it seems to work. Since the card system was implemented, employee turnover has decreased, something that's not easy to accomplish in the restaurant industry.[54]

Employee training is an important HRM activity. As job demands change, employee skills have to change. It's been estimated that U.S. business firms spend more than $52.2 billion annually on formal employee training, an amount that has declined during the economic downturn.[55] Managers, of course, are responsible for deciding what type of training employees need, when they need it, and what form that training should take.

TYPES OF TRAINING. Exhibit 12-8 describes the major types of training that organizations provide. Some of the most popular types include profession/industry-specific training, management/supervisory skills, mandatory/compliance information (such as sexual

by the numbers[50]

36 percent of managers who contact references are most interested in a description of past job duties.

69 percent of employees say they've been asked to do things at work for which they have not received any training.

30 percent of students say that a company's market success was a preferred attribute.

60 percent of employers now offer wellness benefits.

31 percent of HR leaders say that the most important employee characteristic is fitting in with the organization's culture.

40 percent of employees say that their most appealing career model is working for two to three organizations throughout their career.

59 percent of HR recruiters said that the most neglected grooming for job interviews was fingernails.

75 percent of recruiters say that a chronological format is most preferred for a résumé.

EXHIBIT 12-8
Types of Training

Type	Includes
General	Communication skills, computer systems application and programming, customer service, executive development, management skills and development, personal growth, sales, supervisory skills, and technological skills and knowledge
Specific	Basic life/work skills, creativity, customer education, diversity/cultural awareness, remedial writing, managing change, leadership, product knowledge, public speaking/presentation skills, safety, ethics, sexual harassment, team building, wellness, and others

Source: Based on "2005 Industry Report—Types of Training." *Training*, December 2005, p. 22.

harassment, safety, etc.), and customer service training. For many organizations, employee interpersonal skills training—communication, conflict resolution, team building, customer service, and so forth—is a high priority. For example, the director of training and development for Vancouver-based Boston Pizza International said, "Our people know the Boston Pizza concept; they have all the hard skills. It's the soft skills they lack."[56] So the company launched Boston Pizza College, a training program that uses hands-on, scenario-based learning about many interpersonal skills topics. For Canon, Inc., it's the repair personnel's technical skills that are important.[57] As part of their training, repair people play a video game based on the familiar kids' board game Operation in which "lights flashed and buzzers sounded if copier parts were dragged and dropped poorly." The company found that comprehension levels were 5 to 8 percent higher than when traditional training manuals were used.

TRAINING METHODS. Although employee training can be done in traditional ways, many organizations are relying more on technology-based training methods because of their accessibility, cost, and ability to deliver information. Exhibit 12-9 provides a description of the various traditional and technology-based training methods that managers might use. Of all these training methods, experts believe that organizations will increasingly rely on e-learning applications to deliver important information and to develop employees' skills.

EXHIBIT 12-9
Traditional Training Methods

On-the-job—Employees learn how to do tasks simply by performing them, usually after an initial introduction to the task.

Job rotation—Employees work at different jobs in a particular area, getting exposure to a variety of tasks.

Mentoring and coaching—Employees work with an experienced worker who provides information, support, and encouragement; also called apprenticeships in certain industries.

Experiential exercises—Employees participate in role playing, simulations, or other face-to-face types of training.

Workbooks/manuals—Employees refer to training workbooks and manuals for information.

Classroom lectures—Employees attend lectures designed to convey specific information.

Technology-Based Training Methods

CD-ROM/DVD/videotapes/audiotapes/podcasts—Employees listen to or watch selected media that convey information or demonstrate certain techniques.

Videoconferencing/teleconferencing/satellite TV—Employees listen to or participate as information is conveyed or techniques demonstrated.

E-learning—Internet-based learning where employees participate in multimedia simulations or other interactive modules.

LEARNING OUTCOME 12.4
Describe strategies for retaining competent, high-performing employees.

Retaining Competent, High-Performing Employees

At Procter & Gamble, mid-year employee evaluations were used to adjust work goals to reflect more accurately what could be achieved in such a challenging economic environment. The company has directed managers to focus on employees' achievements rather than just to point out areas that need improvement. P&G's director of human resources said that, "Particularly in this economy, people are living in the survival zone. Setting attainable targets was important to keeping up morale."[58]

Once an organization has invested significant dollars in recruiting, selecting, orienting, and training employees, it wants to keep them, especially the competent, high-performing ones! Two HRM activities that play a role in this area are managing employee performance and developing an appropriate compensation and benefits program.

Let's Get Real

Most challenging HR problem I face is *staying on top of all the changes in state and federal laws.*

Employee Performance Management

Managers need to know whether their employees are performing their jobs efficiently and effectively. That's what a **performance management system** does—establishes performance standards that are used to evaluate employee performance. How do managers evaluate employees' performance? That's where the different performance appraisal methods come in.

PERFORMANCE APPRAISAL METHODS. More than 70 percent of managers admit they have trouble giving a critical performance review to an underachieving employee.[59] It's particularly challenging when managers and employees alike sense that they're not beneficial.[60] Although appraising someone's performance is never easy, especially with employees who aren't doing their jobs well, managers can be better at it by using any of the seven different performance appraisal methods. A description of each of these methods, including advantages and disadvantages, is shown in Exhibit 12-10.

Compensation and Benefits

Executives at Discovery Communications Inc. had an employee morale problem on their hands. Many of the company's top performers were making the same salaries as the poorer performers and the company's compensation program didn't allow for giving raises to people who stayed in the same position. The only way for managers to reward the top performers was to give them a bonus or promote them to another position. Executives were discovering that not only was that unfair, it was counterproductive. So they overhauled the program.[61]

Most of us expect to receive appropriate compensation from our employer. Developing an effective and appropriate compensation system is an important part of the HRM process.[62] It can help attract and retain competent and talented individuals who help the organization accomplish its mission and goals. In addition, an organization's compensation system has been shown to have an impact on its strategic performance.[63]

Managers must develop a compensation system that reflects the changing nature of work and the workplace in order to keep people motivated. Organizational compensation can include many different types of rewards and benefits such as base wages and salaries, wage and salary add-ons, incentive payments, and other benefits and services. Some organizations offer employees some unusual, but popular, benefits. For instance, at Qualcomm, employees can receive surfing lessons, kayaking tours, and baseball game tickets. Employees at CHG Healthcare Services enjoy an on-site fitness center, fresh fruit baskets every morning, and an annual wellness fair. And at J. M. Smucker, new hires get a gift basket sent to their homes and all employees enjoy softball games and bowling nights.[64]

EXHIBIT 12-10
Performance Appraisal Methods

Written Essay

Evaluator writes a description of employee's strengths and weaknesses, past performance, and potential; provides suggestions for improvement.

+ Simple to use
− May be better measure of evaluator's writing ability than of employee's actual performance

Critical Incident

Evaluator focuses on critical behaviors that separate effective and ineffective performance.

+ Rich examples, behaviorally based
− Time-consuming, lacks quantification

Graphic Rating Scale

Popular method that lists a set of performance factors and an incremental scale; evaluator goes down the list and rates employee on each factor.

+ Provides quantitative data; not time-consuming
− Doesn't provide in-depth information on job behavior

BARS (Behaviorally Anchored Rating Scale)

Popular approach that combines elements from critical incident and graphic rating scale; evaluator uses a rating scale, but items are examples of actual job behaviors.

+ Focuses on specific and measurable job behaviors
− Time-consuming; difficult to develop

Multiperson Comparison

Employees are rated in comparison to others in work group.

+ Compares employees with one another
− Difficult with large number of employees; legal concerns

MBO

Employees are evaluated on how well they accomplish specific goals.

+ Focuses on goals; results oriented
− Time-consuming

360-Degree Appraisal

Utilizes feedback from supervisors, employees, and coworkers.

+ Thorough
− Time-consuming

How do managers determine who gets paid what? Several factors influence the compensation and benefit packages that different employees receive. Exhibit 12-11 summarizes these factors, which are job-based and business- or industry-based. Many organizations, however, are using alternative approaches to determining compensation: skill-based pay and variable pay.

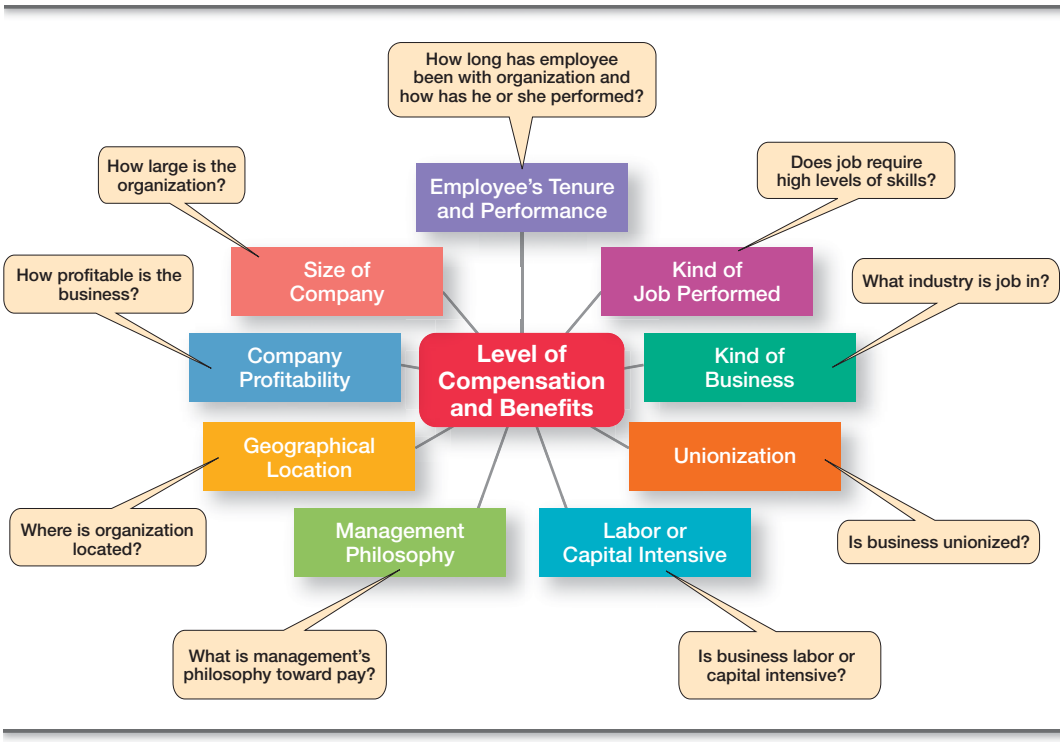
Skill-based pay systems reward employees for the job skills and competencies they can demonstrate. Under this type of pay system, an employee's job title doesn't define his or her pay category, skills do.[65] Research shows that these types of pay systems tend to be more successful in manufacturing organizations than in service organizations and organizations pursuing technical innovations.[66] On the other hand, many organizations use **variable pay** systems, in which an individual's compensation is contingent on

performance management system
Establishes performance standards that are used to evaluate employee performance

skill-based pay
A pay system that rewards employees for the job skills they can demonstrate

variable pay
A pay system in which an individual's compensation is contingent on performance

EXHIBIT 12-11
What Determines Pay and Benefits



performance—90 percent of U.S. organizations use some type of variable pay plans, and 81 percent of Canadian and Taiwanese organizations do.[67] In Chapter 16, we'll discuss variable pay systems further as they relate to employee motivation.

Although many factors influence the design of an organization's compensation system, flexibility is a key consideration. The traditional approach to paying people reflected a more stable time when an employee's pay was largely determined by seniority and job level. Given the dynamic environments that many organizations face, the trend is to make pay systems more flexible and to reduce the number of pay levels. However, whatever approach managers use, they must establish a fair, equitable, and motivating compensation system that allows the organization to recruit and keep a talented and productive workforce.

LEARNING OUTCOME 12.5
Discuss contemporary issues in managing human resources.

Contemporary Issues in Managing Human Resources

We'll conclude this chapter by looking at some contemporary HR issues facing today's managers. These concerns include managing downsizing, sexual harassment, work–life balance, and controlling HR costs.

Managing Downsizing

"Before 1981, the word 'layoff' in the sense of permanent separation from a job with no prospects for recall, was so uncommon that the U.S. Bureau of Labor Statistics didn't even keep track of such cuts."[68] How things have changed!

Downsizing (or layoffs) is the planned elimination of jobs in an organization. When an organization has too many employees—which can happen when it's faced with an economic recession, declining market share, too aggressive growth, or poorly managed operations—one option for improving profits is to eliminate some of those excess workers. During the most current economic recession, many well-known companies downsized—including, among others, Boeing, Volkswagen, McDonald's, Dell, General Motors, Unisys, Siemens, Merck, Honeywell, and eBay. Now, some HR experts are suggesting that a "cost" associated with mass layoffs is the damage they can cause to long-term growth prospects.[69]

EXHIBIT 12-12
Tips for Managing Downsizing

- Communicate openly and honestly:
  - Inform those being let go as soon as possible.
  - Tell surviving employees the new goals and expectations.
  - Explain impact of layoffs.
- Follow any laws regulating severance pay or benefits.
- Provide support/counseling for surviving (remaining) employees.
- Reassign roles according to individuals' talents and backgrounds.
- Focus on boosting morale:
  - Offer individualized reassurance.
  - Continue to communicate, especially one-on-one.
  - Remain involved and available.
- Have a plan for the empty office spaces/cubicles so it isn't so depressing for surviving employees.

How can managers best manage a downsized workplace? Disruptions in the workplace and in employees' personal lives should be expected. Stress, frustration, anxiety, and anger are typical reactions of both individuals being laid off and the job survivors. Exhibit 12-12 lists some ways that managers can lessen the trauma both for the employees being laid off and for the survivors.[70]

Managing Sexual Harassment

A Kentucky appeals court said that McDonald's Corporation is liable in the sexual assault case of an employee detained by supervisors who were following the instructions of a prank caller pretending to be a police officer. The ruling said that McDonald's knew of 30 hoax telephone calls made to its restaurants from 1994 to 2004, including several calls to Kentucky restaurants in which the caller persuaded managers and employees to conduct strip searches and sexual assaults.[71]

Sexual harassment is a serious issue in both public and private sector organizations. During 2009 (the latest data available), almost 12,700 complaints were filed with the Equal Employment Opportunity Commission (EEOC). Although most complaints are filed by women, the percentage of charges filed by males reached an all-time high of 16 percent.[72] The costs of sexual harassment are high. Almost all *Fortune* 500 companies in the United States have had complaints lodged by employees, and at least a third have been sued.[73] Settlements typically average over $15 million.[74] In addition, it's estimated that sexual harassment costs a "typical *Fortune* 500 company $6.7 million per year in absenteeism, low productivity, and turnover."[75]

Sexual harassment isn't a problem just in the United States. It's a global issue. For instance, data collected by the European Commission found that 30 to 50 percent of female employees in European Union countries had experienced some form of sexual harassment.[76] And sexual harassment charges have been filed against employers in other countries such as Japan, Australia, New Zealand, and Mexico.[77]

Even though discussions of sexual harassment cases often focus on the large awards granted by a court, there are other concerns for employers. It creates an unpleasant, oftentimes hostile, work environment and undermines workers' ability to perform their job.

So what is **sexual harassment**? It's defined as any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual's employment, performance, or work environment. And as we indicated earlier, it can occur between members of the opposite sex or of the same sex.

downsizing
The planned elimination of jobs in an organization

sexual harassment
Any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual's employment, performance, or work environment

Many problems associated with sexual harassment involve determining exactly what constitutes this illegal behavior. The EEOC defines sexual harassment this way: "Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when this conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance, or creates an intimidating, hostile or offensive work environment."[78] For many organizations, it's the offensive or hostile environment issue that is problematic. Managers must be aware of what constitutes such an environment. Another thing that managers must understand is that the victim doesn't necessarily have to be the person harassed but could be anyone affected by the offensive conduct.[79] The key is being attuned to what makes fellow employees uncomfortable—and if we don't know, we should ask![80]

What can an organization do to protect itself against sexual harassment claims?[81] The courts want to know two things: First, did the organization know about, or should it have known about, the alleged behavior? And secondly, what did managers do to stop it? With the number and dollar amounts of the awards against organizations increasing, it's vital that all employees be educated on sexual harassment matters. In addition, organizations need to ensure that no retaliatory actions—such as cutting back hours, assigning back-to-back work shifts without a rest break, etc.—are taken against a person who has filed harassment charges, especially in light of a U.S. Supreme Court ruling that broadened what retaliation is.[82] One final area of interest we want to discuss in terms of sexual harassment is workplace romances.

WORKPLACE ROMANCES. If you're employed, have you ever dated someone at work? If not, have you ever been attracted to someone in your workplace and thought about pursuing a relationship? Such situations are more common than you might think—40 percent of employees surveyed by the *Wall Street Journal* said that they have had an office romance.[83] And another survey found that 43 percent of single men and 28 percent of single women said they would be open to dating a coworker.[84] The environment in today's organizations with mixed-gender work teams and long work hours has likely contributed to this situation. "People realize they're going to be at work such long hours, it's almost inevitable that this takes place," said one survey director.[85] And some 67 percent of employees feel there's no need to hide their office relationships.[86]

But workplace romances can potentially become big problems for organizations.[87] In addition to the potential conflicts and retaliation between coworkers who decide to stop dating or to end a romantic relationship, more serious problems stem from the potential for sexual harassment accusations, especially when it's between supervisor and subordinate. The standard used by judicial courts has been that workplace sexual conduct is prohibited sexual harassment *if* it is unwelcome. If it's welcome, it still may be inappropriate, but usually is not unlawful. However, a new ruling by the California Supreme Court concerning specifically a supervisor–subordinate relationship that got out of hand is worth noting. That ruling said the "completely consensual workplace romances can create a hostile work environment for others in the workplace."[88]

What should managers do about workplace romances? Over the last decade, companies have become more flexible about workplace romances. People spend so much time at the office that coworker romances are almost inevitable.[89] However, it's important to educate employees about the potential for sexual harassment. And because the potential liability is more serious when it comes to supervisor–subordinate relationships, a more proactive approach is needed in terms of discouraging such relationships and perhaps even requiring supervisors to report any such relationships to the HR department. At some point, the organization may even want to consider banning such relationships, although an outright ban may be difficult to put into practice.

Managing Work–Life Balance

In 2009, Verizon employees contacted VZ-LIFE, the company's employee assistance program, more than 1,100 times a month by phone and logged more than 35,000 visits a month to the Web site. This program provides resources on parenting and childcare, adult care, health and wellness, moving and relocation, and much more.[90]

Smart managers recognize that employees don't leave their families and personal lives behind when they come to work. Although managers can't be sympathetic with every detail of an employee's family life, organizations are becoming more attuned to the fact that employees have sick children, elderly parents who need special care, and other family issues that may require special arrangements. In response, many organizations are offering **family-friendly benefits**, which accommodate employees' needs for work–family life balance. They've introduced programs such as on-site child care, summer day camps, flextime, job sharing, time off for school functions, telecommuting, and part-time employment. Work–family life conflicts are as relevant to male workers with children and women without children as they are for female employees with children. Heavy workloads and increased travel demands have made it hard for many employees to satisfactorily juggle both work and personal responsibilities. A *Fortune* survey found that 84 percent of male executives surveyed said that "they'd like job options that let them realize their professional aspirations while having more time for things outside work."[91] Also, 87 percent of these executives believed that any company that restructured top-level management jobs in ways that would both increase productivity and make more time available for life outside the office would have a competitive advantage in attracting talented employees. Younger employees, particularly, put a higher priority on family and a lower priority on jobs and are looking for organizations that give them more work flexibility.[92]

Serving as a showpiece of its family support program, Pacific Gas and Electric developed its own child care center at its corporate headquarters in downtown San Francisco. Accommodating 75 children, the center was designed to respond to the developmental needs of each age group served. It includes classrooms and play areas inside the building as well as a large outdoor playground shown in this photo. In addition to on-site child care, PG&E helps career-committed parents balance work and family by offering flexible working arrangements.

Today's progressive workplaces must accommodate the varied needs of a diverse workforce. How? By providing a wide range of scheduling options and benefits that allow employees more flexibility at work and to better balance or integrate their work and personal lives. Despite these organizational efforts, work–family life programs certainly have room for improvement. One survey showed that over 31 percent of college-educated male workers spend 50 or more hours a week at work (up from 22 percent in 1980) and that about 40 percent of American adults get less than seven hours of sleep on weekdays (up from 34 percent in 2001).[93] What about women? Another survey showed that the percentage of American women working 40 hours or more per week had increased. By the way, this same survey showed that the percentage of European women working 40 hours or more had actually declined.[94] Other workplace surveys still show high levels of employee stress stemming from work–family life conflicts. And large groups of women and minority workers remain unemployed or underemployed because of family responsibilities and bias in the workplace.[95] So what can managers do?

FUTURE VISION The Working World in 2020

Technology and globalization have played major roles in blurring the lines between work and leisure time. It's increasingly expected that today's professional worker be available 24/7. So employees regularly check their e-mail before going to bed, take calls from the boss during dinner, participate in global conference calls at 6 A.M., and read tweets from colleagues on weekends.

The 24/7 work life eventually undermines real social relationships. Face-to-face interactions with family and friends suffer and people are likely to feel stressed out and emotionally empty. In response, employees are likely to demand real and virtual barriers that can separate their work and personal lives. For instance, you'll set up separate accounts, Web sites, and networks for work and friends. Employers will find that employees balk at work demands that are outside defined work hours. In order to get and keep good employees, organizations will need to restructure work communications so as to confine them to more traditional hours.

family-friendly benefits
Benefits that accommodate employees' needs for work-life balance

Research on work–family life balance has shown positive outcomes when individuals are able to combine work and family roles.[96] As one study participant noted, "I think being a mother and having patience and watching someone else grow has made me a better manager. I am better able to be patient with other people and let them grow and develop in a way that is good for them."[97] In addition, individuals who have family-friendly workplace support appear to be more satisfied on the job.[98] This finding seems to strengthen the notion that organizations benefit by creating a workplace in which employee work–family life balance is possible. And the benefits are financial as well. Research has shown a significant, positive relationship between work–family life initiatives and an organization's stock price.[99] However, managers need to understand that people do differ in their preferences for work–family life scheduling options and benefits.[100] Some prefer organizational initiatives that better *segment* work from their personal lives. Others prefer programs that facilitate *integration*. For instance, flextime schedules segment because they allow employees to schedule work hours that are less likely to conflict with personal responsibilities. On the other hand, on-site child care integrates the boundaries between work and family responsibilities. People who prefer segmentation are more likely to be satisfied and committed to their jobs when offered options such as flextime, job sharing, and part-time hours. People who prefer integration are more likely to respond positively to options such as on-site child care, gym facilities, and company-sponsored family picnics.

Controlling HR Costs

According to a report by the Conference Board, a nonprofit research group, obesity alone costs U.S. companies as much as $47 billion annually.[101] HR costs are skyrocketing, especially employee health care and employee pensions. Organizations are looking for ways to control these costs.

EMPLOYEE HEALTH CARE COSTS. Employees at Paychex who undergo a confidential health screening and risk assessment, and for those who smoke who agree to enroll in a smoking cessation program, can get free annual physicals, colonoscopies, and 100 percent coverage of preventive care as well as lower deductibles and costs. At Black and Decker Corporation, employees and dependents who certify in an honor system that they have been tobacco-free for at least six months pay $75 less per month for their medical and dental coverage. At Amerigas Propane, employees were given an ultimatum: get their medical checkups or lose their health insurance.[102]

All these examples illustrate how companies are trying to control skyrocketing employee health care costs. Since 2002, health care costs have risen an average of 15 percent a year and are expected to double by the year 2016 from the $2.2 trillion spent in 2007.[103] And smokers cost companies even more—about 25 percent more for health care than nonsmokers do.[104] However, the biggest health care cost for companies is obesity and its related costs arising from medical expenditures and absenteeism.[105] A study of manufacturing organizations found that presenteeism, which is defined as employees not performing at full capacity, was 1.8 percent higher for workers with moderate to severe obesity than for all other employees.[106] The reason for the lost productivity is likely the result of reduced mobility because of body size or pain problems such as arthritis. Is it any wonder that organizations are looking for ways to control their health care costs? How? First, many organizations are providing opportunities for employees to lead healthy lifestyles. From financial incentives to company-sponsored health and wellness programs, the goal is to limit rising health care costs. About 41 percent of companies use some type of positive incentives aimed at encouraging healthy behavior, up from 34 percent in 1996.[107] Another recent study indicated that nearly 90 percent of companies surveyed planned to aggressively promote healthy lifestyles to their employees during the next three to five years.[108] Many are starting sooner: Google, Yamaha Corporation of America, Caterpillar, and others are putting health food in company break rooms, cafeterias, and vending machines; providing deliveries of fresh organic fruit; and putting "calorie taxes" on fatty foods.[109] In the case of smokers, however, some companies have taken a more aggressive stance by increasing the amount smokers pay for health insurance or by firing them if they refuse to stop smoking.

EMPLOYEE PENSION PLAN COSTS. The other area where organizations are looking to control costs is employee pension plans. Corporate pensions have been around since the nineteenth century.[110] But the days when companies could afford to give employees a broad-based pension that provided them a guaranteed retirement income have changed. Pension commitments have become such an enormous burden that companies can no longer afford them. In fact, the corporate pension system has been described as "fundamentally broken."[111] Many companies no longer provide pensions. Even IBM, which closed its pension plan to new hires in December 2004, told employees that their pension benefits would be frozen.[112] Obviously, the pension issue is one that directly affects HR decisions. On the one hand, organizations want to attract talented, capable employees by offering them desirable benefits such as pensions. But on the other hand, organizations have to balance offering benefits with the costs of providing such benefits.

Let's Get Real:

My Response *to A Manager's Dilemma, page 312*

The first thing Shelly must accept is that the decision of a layoff is not a personal attack against a specific person or a group of people, but a business decision that had to be made. A key to making this process less stressful is preparing for the conversation about to take place. A few suggestions that I would have for Shelly:

- Reach out to other companies to understand their hiring needs and help the employees being laid off with the job transitioning process.
- If Ram Tool offers an Employee Assistance Program (EAP), contact them so they can prepare some assistance for Shelly and the affected employees.
- Emphasize to the affected employees that it was not a personal attack but a necessary business decision.
- Try to not get emotionally attached to the employees regardless of the personal relationship; Shelly must learn to separate business decisions from personal relationships.

If Shelly can help the affected employees in the transition process to the best of her abilities, the laid-off employees may cope with the news a little better and understand that opportunities will come if they stay positive. Many great leaders have been laid off at some point or another, and it is what they did during those difficult times that made them a better and stronger leader.

What Would You Do?

Jose Quirarte
HR Manager
D&W Fine Pack, LLC
Fort Calhoun, NE

CHAPTER SUMMARY
by Learning Outcome

LEARNING OUTCOME 12.1

Explain the importance of the human resource management process and the external influences that might affect that process.

HRM is important for three reasons. First, it can be a significant source of competitive advantage. Second, it's an important part of organizational strategies. Finally, the way organizations treat their people has been found to significantly impact organizational performance.

The external factors that most directly affect the HRM process are the economy, labor unions, legal environment, and demographic trends.

LEARNING OUTCOME 12.2

Discuss the tasks associated with identifying and selecting competent employees.

A job analysis is an assessment that defines a job and the behaviors necessary to perform it. A job description is a written statement describing a job, and typically includes job content, environment, and conditions of employment. A job specification is a written statement that specifies the minimum qualifications a person must possess to successfully perform a given job.

The major sources of potential job candidates include the Internet, employee referrals, company Web site, college recruiting, and professional recruiting organizations.

The different selection devices include application forms (best used for gathering employee information), written tests (must be job-related), work sampling (appropriate for complex nonmanagerial and routine work), assessment centers (most appropriate for top-level managers), interviews (widely used, but most appropriate for managerial positions, especially top-level managers), background investigations (useful for verifying application data, but reference checks are essentially worthless), and physical exams (useful for work that involves certain physical requirements and for insurance purposes).

A realistic job preview is important because it gives an applicant more realistic expectations about the job, which in turn should increase employee job satisfaction and reduce turnover.

LEARNING OUTCOME 12.3

Explain the different types of orientation and training.

Orientation is important because it results in an outsider-insider transition that makes the new employee feel comfortable and fairly well-adjusted, lowers the likelihood of poor work performance, and reduces the probability of an early surprise resignation.

The two types of training are general (includes communication skills, computer skills, customer service, personal growth, etc.) and specific (includes basic life/work skills, customer education, diversity/cultural awareness, managing change, etc.). This training can be provided using traditional training methods (on-the-job, job rotation, mentoring and coaching, experiential exercises, workbooks/manuals, and classroom lectures) or by technology-based methods (CD/DVD/videotapes/audiotapes, videoconferencing or teleconferencing, or e-learning).

LEARNING OUTCOME 12.4

Describe strategies for retaining competent, high-performing employees.

The different performance appraisal methods are written essays, critical incidents, graphic rating scales, BARS, multiperson comparisons, MBO, and 360-degree appraisals.

The factors that influence employee compensation and benefits include the employee's tenure and performance, kind of job performed, kind of business/industry, unionization, labor or capital intensive, management philosophy, geographical location, company profitability, and size of company.

Skill-based pay systems reward employees for the job skills and competencies they can demonstrate. In a variable pay system, an employee's compensation is contingent on performance.

Discuss contemporary issues in managing human resources.

LEARNING OUTCOME 12.5

Managers can manage downsizing by communicating openly and honestly, following appropriate laws regarding severance pay or benefits, providing support/counseling for surviving employees, reassigning roles according to individuals' talents and backgrounds, focusing on boosting morale, and having a plan for empty office spaces.

Sexual harassment is any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual's employment, performance, or work environment. Managers need to be aware of what constitutes an offensive or hostile work environment, educate employees on sexual harassment, and ensure that no retaliatory actions are taken against any person who files harassment charges. Also, they may need to have a policy in place for workplace romances.

Organizations are dealing with work–family life balance issues by offering family-friendly benefits such as on-site child care, flextime, telecommuting, and so on. Managers need to understand that people may prefer programs that segment work and personal lives, while others prefer programs that integrate their work and personal lives.

Organizations are controlling HR costs by controlling employee health care costs through employee health initiatives (encouraging healthy behavior and penalizing unhealthy behaviors) and controlling employee pension plans by eliminating or severely limiting them.

mymanagementlab

To check your understanding of learning outcomes 12.1 – 12.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. How does HRM affect all managers?
2. Discuss the external environmental factors that most directly affect the HRM process.
3. Should an employer have the right to choose employees without governmental interference? Support your conclusion.
4. Some critics claim that corporate HR departments have outlived their usefulness and are not there to help employees, but to keep the organization from legal problems. What do you think? What benefits are there to having a formal HRM process? What drawbacks?
5. Describe the different selection devices and which work best for different jobs.
6. What are the benefits and drawbacks of realistic job previews? (Consider this question from the perspective of both the organization and the employee.)
7. Describe the different types of orientation and training and how each of the types of training might be provided.
8. List the factors that influence employee compensation and benefits.
9. Describe the different performance appraisal methods.
10. What, in your view, constitutes sexual harassment? Describe how companies can minimize sexual harassment in the workplace.

ETHICS DILEMMA

Should employees be forced to get a flu vaccination or risk losing their jobs? New York was the first state to require that all health care workers be vaccinated against influenza. In other states, individual hospitals have taken the same aggressive position. Flu-vaccine requirements are being challenged by health care workers who maintain that decisions about vaccination should be theirs and theirs alone. What do you think? What are the positives and negatives to each side? What are the ethical implications? Are there other professions where such a requirement should be imposed?

SKILLS EXERCISE

Developing Your Interviewing Skill

About the Skill

Every manager needs to develop his or her interviewing skills. The following discussion highlights the key behaviors associated with this skill.

Steps in Practicing the Skill

1. **Review the job description and job specification.** Reviewing pertinent information about the job provides valuable information about how to assess the candidate. Furthermore, relevant job requirements help to eliminate interview bias.
2. **Prepare a structured set of questions to ask all applicants for the job.** By having a set of prepared questions, you ensure that the information you wish to elicit is attainable. Furthermore, if you ask all applicants similar questions, you're better able to compare their answers against a common base.
3. **Before meeting an applicant, review his or her application form and résumé.** Doing so helps you to create a complete picture of the applicant in terms of what is represented on the résumé or application and what the job requires. You will also begin to identify areas to explore in the interview. That is, areas that are not clearly defined on the résumé or application but that are essential for the job will become a focal point of your discussion with the applicant.
4. **Open the interview by putting the applicant at ease and by providing a brief preview of the topics to be discussed.** Interviews are stressful for job applicants. By opening with small talk (e.g., the weather), you give the person time to adjust to the interview setting. By providing a preview of topics to come, you're giving the applicant an agenda that helps the individual begin framing what he or she will say in response to your questions.
5. **Ask your questions and listen carefully to the applicant's answers.** Select follow-up questions that naturally flow from the answers given. Focus on the responses as they relate to information you need to ensure that the applicant meets your job requirements. Any uncertainty you may still have requires a follow-up question to probe further for the information.
6. **Close the interview by telling the applicant what's going to happen next.** Applicants are anxious about the status of your hiring decision. Be honest with the applicant regarding others who will be interviewed and the remaining steps in the hiring process. If you plan to make a decision in two weeks or so, let the individual know what you intend to do. In addition, tell the applicant how you will let him or her know about your decision.
7. **Write your evaluation of the applicant while the interview is still fresh in your mind.** Don't wait until the end of your day, after interviewing several applicants, to write your analysis of each one. Memory can fail you. The sooner you complete your write-up after an interview, the better chance you have of accurately recording what occurred in the interview.

Practicing the Skill

Review and update your résumé. Then have several friends critique it who are employed in management-level positions or in management training programs. Ask them to explain their comments and make any changes to your résumé that they think will improve it.

Now inventory your interpersonal and technical skills and any practical experiences that do not show up in your résumé. Draft a set of leading questions you would like to be asked in an interview that would give you a chance to discuss the unique qualities and attributes you could bring to the job.

WORKING TOGETHER

Team Exercise

The increasing popularity of body art is posing challenges for employers and HR departments in every profession and industry.[113] A recent Pew Research Center survey reported that 36 percent of 18- to 25-year-olds and 40 percent of 26- to 40-year-olds have at least one tattoo. In those same age groups, 30 percent and 22 percent, respectively, have a piercing somewhere other than their ears. The same survey found that even in the 40- to 60-year-old age group, more than 10 percent had tattoos or piercings outside of their ears.

Form small groups of three to four individuals. Your team's task is to come up with a dress code and grooming policy that clearly spells out guidelines as far as body art and what is permitted. You can do this in the form of a bulleted list. Be prepared to share your proposed policy with the class.

MY TURN TO BE A MANAGER

- Studies show that women's salaries still lag behind men's and even with equal opportunity laws and regulations women are paid about 76 percent of what men are paid. Do some research on designing a compensation system that would address this issue. Write up your findings in a bulleted list format.
- Go the Society for Human Resource Management Web site [www.shrm.org] and find the HR News section. Pick one of the News Stories to read. (Note: Some of these will be available only to SHRM members, but others will be generally available.) Write a summary of the information. At the end of your summary, discuss the implications of the topic for managers.
- Use the Internet to research five different companies that interest you and check out what they say about careers or their people. Put this information in a bulleted-format report. Be prepared to make a presentation to the class on your findings.
- Work on your résumé. If you don't have one already, research what a good résumé should include. If you have one already, make sure that it provides specific information that explicitly describes your work skills and experience rather than meaningless phrases such as "results-oriented."
- If you're working, note what types of HRM activities your managers do (such as interview, appraise performance, etc.). Ask them what they've found to be effective in getting and keeping good employees. What hasn't been effective? What can you learn from this? If you're not working, interview three different managers as to what HRM activities they do and which they've found to be effective or not effective.
- Research your chosen career by finding out what it's going to take to be successful in that career in terms of education, skills, experience, and so forth. Write a Personal Career Guide detailing this information.
- Steve's and Mary's suggested readings: D. Shilling, *2010 Complete Guide to Human Resources and the Law* (Wolters Kluwer, 2010); Brian E. Becker, Mark A. Huselid, and Richard W. Beatty, *The Differentiated Workforce* (Harvard Business School Press, 2009); Thomas W. Malone, *The Future of Work* (Harvard Business School Press, 2004); Charles A. O'Reilly III and Jeffrey Pfeffer, *Hidden Value* (Harvard Business School Press, 2000); Jeffrey Pfeffer, *The Human Equation* (Harvard Business School Press, 1998); Richard W. Judy and Carol D'Amico, *Workforce 2020* (Hudson Institute, 1997); and Robert Johansen and Rob Swigart, *Upsizing the Individual in the Downsized Organization* (Addison-Wesley, 1996).
- Pick one of the four topics in the section on contemporary issues in managing human resources. Research this topic and write a paper about it. Focus on finding current information and current examples of companies dealing with these issues.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Good Am I at Giving Performance Feedback? How Satisfied Am I with My Job? Am I Experiencing Work–Family Conflict? What Are My Attitudes Toward Workplace Diversity? How Much Do I Know About HRM? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Thinking Outside the Box

Replacing its traditional classroom training for drivers, UPS now prepares applicants for the rigorous task of delivering packages and documents efficiently by using videogames, a "slip and fall" simulator, and an obstacle course around a mock village.

It's the world's largest package delivery company with the instantly recognizable brown trucks.[114] Every day United Parcel Service (UPS) transports some 15 million packages and documents throughout the United States and to more than 200 countries and territories. Delivering those packages efficiently is what it gets paid to do, and that massive effort wouldn't be possible without its 99,000-plus drivers. UPS recognizes that it has an HR challenge: hiring and training some 25,000 drivers over the next five years to replace retiring Baby Boomers. But the company has a plan in place that combines its tested business model of uniformity and efficiency (for instance, drivers are trained to hold their keys on a pinky finger so they don't waste time fumbling in their pockets for the keys) with a new approach to driver training.

UPS's traditional classroom driver training obviously wasn't working as some 30 percent of its driver candidates didn't make it. The company was convinced that the twenty-somethings—the bulk of its driver recruits—responded best to high-tech instruction instead of books and lectures. Now, trainees use videogames, a "slip and fall simulator which combines a greased floor with slippery shoes," and an obstacle course around a mock village.

At a UPS training center outside of Washington, D.C., applicants for a driver's job, which pays an average of $74,000 annually, spend one week practicing and training to be a driver. They move from one station to the next practicing the company's "340 Methods," which are techniques developed by industrial engineers "to save seconds and improve safety in every task from lifting and loading boxes to selecting a package from a shelf in the truck." Applicants play a videogame where they're in the driver's seat and must identify obstacles. From computer simulations, they move to "Clarksville," a mock village with miniature houses and faux businesses. There, they drive a real truck and "must successfully execute five deliveries in 19 minutes." And, in the interest of safety and efficiency, trainees learn to carefully walk on ice with the slip and fall simulator.

How are the new training methods working? So far, so good. Of the 1,629 trainees who have completed it, "only 10 percent have failed the training program, which takes a total of six weeks overall including 30 days of driving a truck in the real world."

Discussion Questions

1. What external factors were affecting UPS's HR practices? How did UPS respond to these trends?
2. Why is efficiency and safety so important to UPS? What role do the company's industrial engineers play in how employees do their work?
3. What changes did the company make to its driver training program? What do you think of these changes?
4. What advantages and drawbacks do you see to this training approach for (a) the trainee and (b) the company?

CASE APPLICATION 2

Social Connections

400 million users served. That's the traffic milestone achieved by Facebook in early 2010. One of those users is Big Four accounting firm Ernst & Young (E&Y), which has had a Facebook page since the summer of 2006.[115] According to the company's Recruiting Director, E&Y uses its Facebook page to reach out to potential new employees. "Our goal was to find a medium Generation Y commonly goes to, so we could communicate with them in a way that's relevant to their day-to-day activities." The company also hoped to promote its brand and culture and show students (future employees) what E&Y was all about and what it would be like to work there.

A quick look at E&Y's Facebook page confirms that the focus is on what the company most values including the learning and development resources available to its employees, its commitment to social responsibility, its focus on inclusiveness, and its internships. Videos show interns and workers in the workplace describing their experiences with the company. The company's 46,000 plus "fans" can use the company's message board to write questions and comments. And those questions and comments aren't ignored. A response is given quickly in an attempt to create an interactive relationship with students. Again, the purpose is to serve as a recruitment tool for future talent. And Facebook isn't the only social media E&Y is using. Company interns Tweet about their experiences—what their first day was like, work experiences, and experiences with E&Y community events.

The practice of using social networking sites to source applicants isn't without its critics. One law firm partner said, "Social networking sites are problematic because the population is limited and highly selective. I anticipate more race and age claims over the next couple of years, and a significant portion will be from sourcing through social networking sites. . . . We'll see lawsuits." Then, there's the possibility that a company using social media to recruit also could use that same method to check out candidate's personal pages. E&Y has promised not to look at candidates' personal pages.

Discussion Questions

1. What are advantages and drawbacks of using social media in the recruiting process for (a) an applicant and (b) a company?
2. Is the use of social media in recruiting applicants a way to hire smarter or a lawsuit waiting to happen? Explain your position.
3. Go to Facebook and check out Ernst & Young's page. What's your impression? Is it an attractive recruiting tool? Why or why not?

Managing Your Career Module

Jeffrey Hollender is chief inspired protagonist, cofounder, and executive chairperson of Seventh Generation Inc., the country's largest distributor of nontoxic, all-natural cleaning, paper, and personal products. He would undoubtedly be considered a successful businessperson. However, every time Hollender visits Canada, he is detained for extra security screening "because of an incident where authorities arrested and deported the then-23-year-old American for operating an adult-education school in Toronto without a work permit."[1] Other prominent businesspeople also had setbacks early in their career but went on to be successful.

If you want to be successful in your career, maybe you'll face setbacks, but maybe you won't. The main thing to keep in mind is that you are the one responsible for your career.[2] No one else is going to do it for you, including the organization where you're employed. That's why we've included this module in the textbook—to help you better manage your career. The information in this module is set up by topic area so you can pick and choose what you're most interested in. Have fun reading it and good luck in your future career!

Career Opportunities in Management

If you've paid any attention to news reports over the last few years, you know about the widespread layoffs both in the United States and worldwide: Merck cut about 11 percent of its workforce. Unisys reduced its workforce by 10 percent. Pfizer Japan Inc. cut its workforce by 5 percent. Kodak eliminated up to 25,000 jobs. So are management jobs disappearing? You might think so based on these reports. The truth is: The future looks bright! Business administration and management continues to be one of the top 10 most popular college majors, and jobs are likely to be waiting for those graduates!

Almost 2 million individuals in the United States are employed as managers.[3] The U.S. Bureau of Labor Statistics estimates a 5 to 28 percent growth in executive, administrative, and managerial jobs through the year 2018.[4] These jobs, however, may not be in the organizations or fields that you'd expect. The demand for managers in traditional *Fortune* 500 organizations, and particularly in the area of traditional manufacturing, is not going to be as strong as the demand for managers in small and medium-sized organizations in the services field, particularly information and health care services. Keep in mind that a good place to land a management position can be a smaller organization.

Finding a Culture That Fits

Richard D'Ambrosio thought he had found the perfect job at an accounting firm. It had all the outward appearances of a good workplace—employee recognition awards and managers with "politically correct" answers to work–life questions. Yet, as soon as he signed on, he found himself in a culture that prized working long hours just for the sake of working long

hours and where junior accountants were expected to be at the beck and call of the partners. If it was your wedding anniversary, too bad. If it was a holiday, too bad. It only took a few months before he quit. How can you avoid the same problem? How can you find a culture that fits?[5] Here are some suggestions.

First, *figure out what suits you*. For instance, do you like working in teams or on your own? Do you like to go out after work with colleagues or go straight home? Are you comfortable in a more formal or a more casual environment? Then, narrow your job search to those kinds of employers.

Once you've gotten through the initial job screening process and begin interviewing, the real detective work begins, which involves more than investigating the "official" information provided by the employer. *Try to uncover the values that drive the organization.* Ask questions such as the proudest accomplishments or how it responded to past emergencies and crises. Ask, "If I have an idea, how do I make it happen?" Ask if you can talk to someone who's on the "fast track" to promotions and find out what they're doing and why they're being rewarded. Ask how you'll be evaluated—after all, if you're going to be in the game, shouldn't you know how the score is kept? Also, look for nonverbal clues. What do people have at their desks—family pictures or only work stuff? Are office doors closed or open? Are there doors? How does the physical climate feel? Is it relaxed and casual or more formal? Do people seem to be helping each other as they work? Are the bathrooms dirty, which might indicate a low value placed on anything to do with employees? Look at the material symbols and who seems to have access to them. And finally, during your investigation, *pay particular attention to the specific department or unit where you'd work*. After all, it is the place where you'd spend the majority of your working hours. Can you see yourself being happy there?

Taking Risks

"IYAD-WYAD-YAG-WYAG: If you always do what you've always done, you'll always get what you've always got! So if your life is ever going to improve, you'll have to take chances." —Anonymous[6]

How will you approach your various career moves over the course of your lifetime? Will you want to do what you've always done? Or will you want to take chances, and how comfortable will you be taking chances? Taking career risks doesn't have to be a gamble. Responsible risk taking can make outcomes more predictable. Here are some suggestions for being a responsible, effective risk taker in career decisions. It's important to thoroughly evaluate the risk. Before committing to a career risk, consider what you could lose or who might be hurt. How important are those things or those people to you? Explore whether you can reach your goal in another way, thus making the risk unnecessary. Find out everything you can about what's involved with taking this career risk—the timing; the people involved; the changes it will entail; and the potential gains and losses, both in the short run and the long run. Examine closely your feelings about taking this risk: Are you afraid? Are you ready to act now? Will you know if you have risked more than you can afford to lose? Finally, ensure your employability. The most important thing you can do is ensuring that you have choices by keeping your skills current and continually learning new skills.

As with any decision involving risk, the more information you have available, the better able you are to assess the risk. Then, armed with this information, you can make a more informed decision. Even though you won't be able to eliminate all the negatives associated with taking the risk, you can, at least, know about them.

Reinventing Yourself

Face it. The only constant thing about change is that it is constant. These days you don't have the luxury of dealing with change only once in a while. No, the workplace seems to change almost continuously. How can you reinvent yourself to deal with the demands of a constantly changing workplace?[7]

Being prepared isn't a credo just for the Boy Scouts; it should be your motto for dealing with a workplace that is constantly changing. Being prepared means taking the initiative and being responsible for your own personal career development. Rather than depending on your organization to provide you with career development and training opportunities, do it yourself. Take advantage of continuing education or graduate courses at local colleges. Sign up for workshops and seminars that can help you enhance your skills. Upgrading your skills to keep them current is one of the most important things you can do to reinvent yourself.

It's also important for you to be a positive force when faced with workplace changes. We don't mean that you should routinely accept any change that's being implemented. If you think that a proposed change won't work, speak up. Voice your concerns in a constructive manner. Being constructive may mean suggesting an alternative. However, if you feel that the change is beneficial, support it wholeheartedly and enthusiastically.

The changes that organizations make in response to a dynamic environment can be overwhelming and stressful. However, you can take advantage of these changes by reinventing yourself.

Learning to Get Along with Difficult People

We've all been around people who, to put it nicely, are difficult to get along with. These people might be chronic complainers, they might be meddlers who think they know everything about everyone else's job and don't hesitate to tell you so, or they might exhibit any number of other unpleasant interpersonal characteristics. They can make your job as a

manager extremely hard and your work day very stressful if you don't know how to deal with them. Being around difficult people tends to bring out the worst in all of us. What can you do? How do you learn to get along with these difficult people?[8]

Getting along with difficult people takes a little bit of patience, planning, and preparation. What you need is an approach that helps you diffuse a lot of the negative aspects of dealing with these individuals. For instance, it helps to write down a detailed description of the person's behavior. Describe what this person does that bothers you. Then, try to understand that behavior. Put yourself in that person's shoes and attempt to see things from his or her perspective. Doing these things initially might help you better understand, predict, and influence behavior.

Unfortunately, trying to understand the person usually isn't enough for getting along. You'll also need some specific strategies for coping with different types of difficult personalities. Here are some of the most common types of difficult people you'll meet and some strategies for dealing with them.

THE HOSTILE, AGGRESSIVE TYPES. With this type, you need to stand up for yourself; give them time to run down; don't worry about being polite, just jump in if you need to; get their attention carefully; get them to sit down; speak from your own point of view; avoid a head-on fight; and be ready to be friendly.

THE COMPLAINERS. With the complainers you need to listen attentively; acknowledge their concerns; be prepared to interrupt their litany of complaints; don't agree, but do acknowledge what they're saying; state facts without comment or apology; and switch them to problem solving.

THE SILENT OR NONRESPONSIVE TYPES. With this type, you need to ask open-ended questions; use the friendly, silent stare; don't fill the silent pauses for them in conversations; comment on what's happening; and help break the tension by making them feel more at ease.

THE KNOW-IT-ALL EXPERTS. The keys to dealing with this type are to be on top of things; listen and acknowledge their comments; question firmly, but don't confront; avoid being a counterexpert; and work with them to channel their energy in positive directions.

What Do I Want from My Job?

If you're reading this textbook, you're likely enrolled in a class that's helping you earn credit toward a college degree. You're also likely taking the courses you need to earn a college degree because you hope to get a good job (or a better job, if you're already working) upon graduating. With all this effort you're putting forth, have you ever stopped to think about what you really want from your job?[9] A high salary? Work that challenges you? Autonomy and flexibility? Perhaps the results of surveys of workers will give you some insights into what you might want from your job. The top reasons that employees took their jobs and stay with their jobs are as follows:

Work–life balance and flexibility	29%
The work itself	27
Compensation offered	26
Coworkers	25
Work culture	13
Training opportunities	5
Advancement opportunities	5

(Total adds up to more than 100% because individuals indicated more than one factor.)

Do any of these characteristics describe what you want from your job? Whether they do or don't, you should spend some time reflecting on what you want your job to provide you. Then, when it's time to do that all-important job search, look for situations that will provide you what you're looking for.

How Can I Have a Successful Career?

Leaving college after graduation to enter the workforce is always a scary step. However, you can make that transition much easier through one "undeniable element: personal accountability."[10] And because you're likely to be the youngest team member, it's especially important that you take responsibility for your actions and behaviors. By taking an active role in managing your career, your work life can be more exciting, enjoyable, satisfying, and rewarding. So, here are some suggestions that will help you on the path to a successful career:

- Understand yourself—your abilities and disabilities; your strengths and weaknesses
- Protect your personal brand—watch what you share online and in interactions with others, and watch your e-mails[11]
- Be a team player—focus on knowing your peer group and your organization and on the best ways to work within them
- Dress appropriately—first impressions count, but so do other impressions that you make every day
- Network—develop and keep your links to other professionals open and active by participating in professional organizations, staying in touch with

classmates and friends, using online networking sites, and so forth[12]
- Ask for help—if you find yourself facing an issue you're not sure how to handle, ask someone for advice or guidance; seek out a mentor
- Keep your skills updated—although you might think you know it all, you don't; keep learning about your profession and your industry
- Set goals and then work hard to achieve them—showing your boss that you're able to set goals and reach them is always impressive
- Do good work—above all, having a successful career means doing your job well, whatever that job might be

13 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Tracy K. Tunwall
Assistant Professor of Business
Mount Mercy University
Cedar Rapids, IA

MY JOB:
I am currently an assistant professor of business at Mount Mercy University, and most recently was the vice president of human resources at Frontier Natural Products. I still play bass guitar with Aeroroot, which is Frontier's corporate band.

BEST PART OF MY JOB:
Working with people. I really believe in the opportunity for managers to have a positive impact on people's work and personal lives. One person can make a difference.

Managing Teams

LEARNING OUTCOMES

13.1 **Define** groups and the stages of group development. *page 346*

13.2 **Describe** the major components that determine group performance and satisfaction. *page 348*

13.3 **Define** teams and best practices influencing team performance. *page 357*

13.4 **Discuss** contemporary issues in managing teams. *page 361*

WORST PART OF MY JOB:

The hardest part of a manager's job is keeping focus on what really matters. It is easy to get caught up in the day-to-day fire fighting and not make time for the long-term initiatives.

BEST MANAGEMENT ADVICE EVER RECEIVED:

To get where you want to be, do something you are afraid to do. Don't let your fears get in the way of your potential.

A Manager's Dilemma

Just like the Olympics, the World Cup comes around only every four years.[1] And just like the Olympics, the athletes prepare as only elite athletes know how to do. France's highly regarded national team, Les Bleus, went to the South African World Cup with a motto, "All together for a new dream." However, from its first competitive match through its final defeat, the team lived more of a nightmare.

On paper, France's team was considered one of the world's best. It should have been in prime position to walk away with the World Cup championship. However, the team performed badly on the field, and its behavior was even worse off the field. A top player was sent home for insulting the coach. The team captain hinted that there was a traitor in the team's midst after the coach/player dispute was leaked to the press. And after its first match ended in a draw and its second match in a loss to Mexico, team players refused to participate in a training session in a protest against their bosses. The final straw was the team's defeat in its last match by the host country team. So much for the dream. What went wrong with this team?

What Would You Do?

You've probably had a lot of experience working in groups—class project teams, maybe an athletic team, a fundraising committee, or even a sales team at work. Work teams are one of the realities—and challenges—of managing in today's dynamic global environment. Many organizations have made the move to restructure work around teams rather than individuals. Why? What do these teams look like? And, like the challenge facing France's national soccer team (or football team as the non-American world refers to it), how can managers build effective teams? We will look at answers to these questions throughout this chapter. Before we can understand teams, however, we first need to understand some basics about groups and group behavior.

LEARNING OUTCOME 13.1
Define groups and the stages of group development.

Groups and Group Development

Each person in the group had his or her assigned role: The Spotter, The Back Spotter, The Gorilla, and the Big Player. For over 10 years, this group—former MIT students who were members of a secret Black Jack Club—used their extraordinary mathematical abilities, expert training, teamwork, and interpersonal skills to take millions of dollars from some of the major casinos in the United States.[2] Although most groups aren't formed for such dishonest purposes, the success of this group at its task was impressive. Managers would like their groups to be successful at their tasks also. The first step is understanding what a group is and how groups develop.

What Is a Group?

A **group** is defined as two or more interacting and interdependent individuals who come together to achieve specific goals. *Formal groups* are work groups that are defined by the organization's structure and have designated work assignments and specific tasks directed at accomplishing organizational goals. Exhibit 13-1 provides some examples. *Informal groups* are social groups. These groups occur naturally in the workplace and tend to form around friendships and common interests. For example, five employees from different departments who regularly eat lunch together are an informal group.

Stages of Group Development

Research shows that groups develop through five stages.[3] As shown in Exhibit 13-2, these five stages are *forming, storming, norming, performing,* and *adjourning*.

- *Command groups*—Groups that are determined by the organization chart and composed of individuals who report directly to a given manager.
- *Task groups*—Groups composed of individuals brought together to complete a specific job task; their existence is often temporary because when the task is completed, the group disbands.
- *Cross-functional teams*—Groups that bring together the knowledge and skills of individuals from various work areas or groups whose members have been trained to do each others' jobs.
- *Self-managed teams*—Groups that are essentially independent and that, in addition to their own tasks, take on traditional managerial responsibilities, such as hiring, planning and scheduling, and evaluating performance.

EXHIBIT 13-1
Examples of Formal Work Groups

The **forming stage** has two phases. The first occurs as people join the group. In a formal group, people join because of some work assignment. Once they've joined, the second phase begins: defining the group's purpose, structure, and leadership. This phase involves a great deal of uncertainty as members "test the waters" to determine what types of behavior are acceptable. This stage is complete when members begin to think of themselves as part of a group.

The **storming stage** is appropriately named because of the intragroup conflict. There's conflict over who will control the group and what the group needs to be doing. During this stage, a relatively clear hierarchy of leadership and agreement on the group's direction emerge.

The **norming stage** is one in which close relationships develop and the group becomes cohesive. There's now a strong sense of group identity and camaraderie. This stage is complete

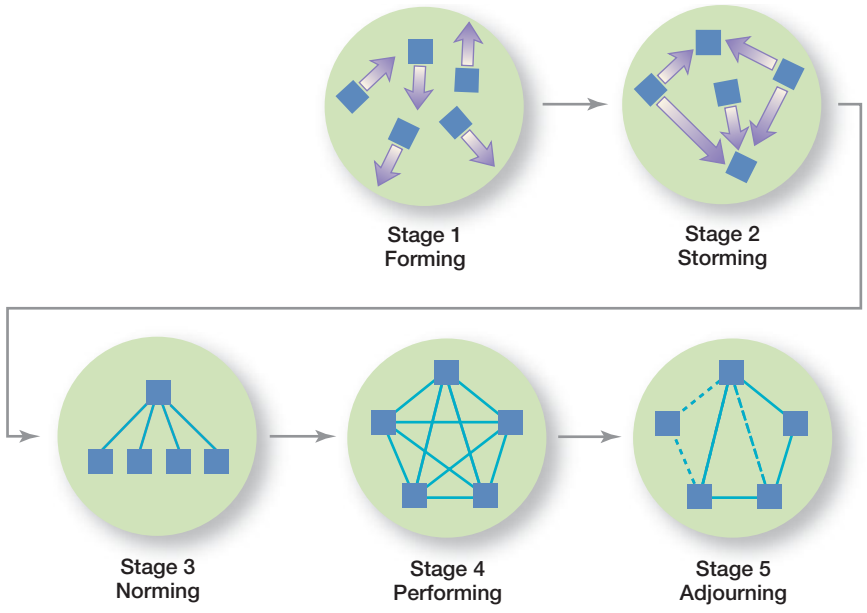


EXHIBIT 13-2
Stages of Group Development

group
Two or more interacting and interdependent individuals who come together to achieve specific goals

forming stage
The first stage of group development in which people join the group and then define the group's purpose, structure, and leadership

storming stage
The second stage of group development, characterized by intragroup conflict

norming stage
The third stage of group development, characterized by close relationships and cohesiveness

How much work in your organization is done by groups? *In today's world, little is done in isolation. Almost every task is a team effort, even in the most technical jobs.*

when the group structure solidifies, and the group has assimilated a common set of expectations (or norms) regarding member behavior.

The fourth stage is the **performing stage**. The group structure is in place and accepted by group members. Their energies have moved from getting to know and understand each other to working on the group's task. This is the last stage of development for permanent work groups. However, for temporary groups—project teams, task forces, or similar groups that have a limited task to do—the final stage is **adjourning**. In this stage, the group prepares to disband. The group focuses its attention on wrapping up activities instead of task performance. Group members react in different ways. Some are upbeat, thrilled about the group's accomplishments. Others may be sad over the loss of camaraderie and friendships.

Many of you have probably experienced these stages as you've worked on a group project for a class. Group members are selected or assigned and then meet for the first time. There's a "feeling out" period to assess what the group is going to do and how it's going to be done. What usually follows is a battle for control: Who's going to be in charge? Once this issue is resolved and a "hierarchy" agreed on, the group identifies specific work that needs to be done, who's going to do each part, and dates by which the assigned work needs to be completed. General expectations are established. These decisions form the foundation for what you hope will be a coordinated group effort culminating in a project that's been done well. Once the project is complete and turned in, the group breaks up. Of course, some groups don't get much beyond the forming or storming stages. These groups may have serious interpersonal conflicts, turn in disappointing work, and get lower grades.

Does a group become more effective as it progresses through the first four stages? Some researchers say yes, but it's not that simple.[4] That assumption may be generally true, but what makes a group effective is a complex issue. Under some conditions, high levels of conflict are conducive to high levels of group performance. In some situations, groups in the storming stage outperform those in the norming or performing stages. Also, groups don't always proceed sequentially from one stage to the next. Sometimes, groups are storming and performing at the same time. Groups even occasionally regress to previous stages. Therefore, don't assume that all groups precisely follow this process or that performing is always the most preferable stage. Think of this model as a general framework that underscores the fact that groups are dynamic entities and managers need to know the stage a group is in so they can understand the problems and issues that are most likely to surface.

LEARNING OUTCOME 13.2
Describe the major components that determine group performance and satisfaction.

Work Group Performance and Satisfaction

Many people consider them the most successful "group" of our times. Who? The Beatles. "The Beatles were great artists and entertainers, but in many respects they were four ordinary guys who, as a group, found a way to achieve extraordinary artistic and financial success and have a great time together while doing it. Every business team can learn from their story."[5]

Why *are* some groups more successful than others? Why do some groups achieve high levels of performance and high levels of member satisfaction and others do not? The answers are complex, but include variables such as the abilities of the group's members, the size of the group, the level of conflict, and the internal pressures on members to conform to the group's norms. Exhibit 13-3 presents the major factors that determine group performance and satisfaction.[6] Let's look at each.

External Conditions Imposed on the Group

Work groups are affected by the external conditions imposed on it, such as the organization's strategy, authority relationships, formal rules and regulations, availability of resources, employee selection criteria, the performance management system and culture, and the general physical layout of the group's work space. For instance, some groups have

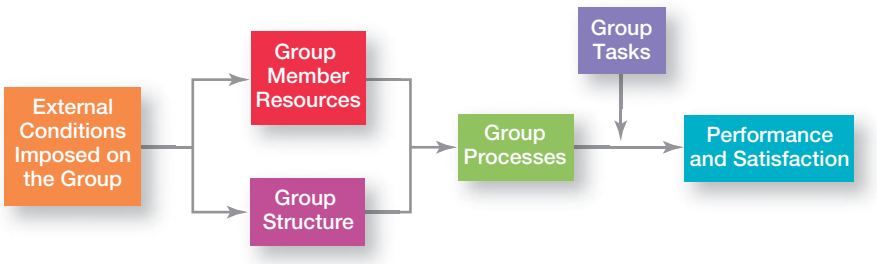


EXHIBIT 13-3
Group Performance/Satisfaction Model

modern, high-quality tools and equipment to do their jobs while other groups don't. Or the organization might be pursuing a strategy of lowering costs or improving quality, which will affect what a group does and how it does it.

Group Member Resources

A group's performance potential depends to a large extent on the resources each individual brings to the group. These resources include knowledge, abilities, skills, and personality traits, and they determine what members can do and how effectively they will perform in a group. Interpersonal skills—especially conflict management and resolution, collaborative problem solving, and communication—consistently emerge as important for high performance by work groups.[7]

Personality traits also affect group performance because they strongly influence how the individual will interact with other group members. Research has shown that traits that are viewed as positive in our culture (such as sociability, self-reliance, and independence) tend to be positively related to group productivity and morale. In contrast, negative personality characteristics such as authoritarianism, dominance, and unconventionality tend to be negatively related to group productivity and morale.[8]

Group Structure

Work groups aren't unorganized crowds. They have an internal structure that shapes members' behavior and influences group performance. The structure defines roles, norms, conformity, status systems, group size, group cohesiveness, and leadership. Let's look at the first six of these aspects of structure. Leadership is discussed in Chapter 17.

ROLES. We introduced the concept of roles in Chapter 1 when we discussed what managers do. (Remember Mintzberg's managerial roles?) Of course, managers aren't the only individuals in an organization who play various roles. The concept of roles applies to all employees and to their life outside an organization as well. (Think of the various roles you play: student, sibling, employee, spouse or significant other, etc.)

A **role** refers to behavior patterns expected of someone occupying a given position in a social unit. In a group, individuals are expected to do certain things because of their position (role) in the group. These roles are generally oriented toward either getting work done or keeping group members happy.[10] Think about groups that you've been in and the roles that you played in those groups. Were you continually trying to keep the group focused on getting its work done? If so, you were performing a task accomplishment role. Or were you more concerned that group members had the opportunity to offer ideas and

by the numbers[9]

70 percent of employees say that the biggest benefit of workplace friendships is that it creates a more supportive workplace.

85 percent of *Fortune* 1000 companies use team- or group-based pay.

69 percent of workers say their teams are not given enough resources.

83 percent of respondents to a survey identify teams as a key ingredient to organizational success.

33 percent of females want more face-to-face group meetings.

27 percent of males want more face-to-face group meetings.

40 percent of senior executives say that meeting deadlines is the most important characteristic of a good team player.

performing stage
The fourth stage of group development when the group is fully functional and works on group task

adjourning
The final stage of group development for temporary groups during which group members are concerned with wrapping up activities rather than task performance

role
Behavior patterns expected of someone occupying a given position in a social unit

that they were satisfied with the experience? If so, you were performing a group member satisfaction role. Both roles are important to the group's ability to function effectively and efficiently.

A problem that arises is that individuals play multiple roles and adjust their roles to the group to which they belong at the time. However, the differing expectations of these roles often mean that employees face *role conflicts*.

NORMS. All groups have **norms**—standards or expectations that are accepted and shared by a group's members. Norms dictate things such as work output levels, absenteeism, promptness, and the amount of socializing on the job.

For example, norms dictate the "arrival ritual" among office assistants at Coleman Trust Inc. where the workday begins at 8 A.M. Most employees typically arrive a few minutes before and hang up their coats and put their purses and other personal items on their desk so everyone knows they're "at work." They then go to the break room to get coffee and chat. Anyone who violates this norm by starting work at 8 A.M. is pressured to behave in a way that conforms to the group's standard.

Although a group has its own unique set of norms, common organizational norms focus on effort and performance, dress, and loyalty. The most widespread norms are those related to work effort and performance. Work groups typically provide their members with explicit cues on how hard to work, level of output, when to look busy, when it's acceptable to goof off, and the like. These norms are powerful influences on an individual employee's performance. They're so powerful that you can't predict someone's performance based solely on his or her ability and personal motivation. Dress norms frequently dictate what's acceptable to wear to work. If the norm is more formal dress, anyone who dresses casually may face subtle pressure to conform. Finally, loyalty norms will influence whether individuals work late, work on weekends, or move to locations they might not prefer to live.

One negative thing about group norms is that being part of a group can increase an individual's antisocial actions. If the norms of the group include tolerating deviant behavior, someone who normally wouldn't engage in such behavior might be more likely to do so. For instance, one study found that those working in a group were more likely to lie, cheat, and steal than were individuals working alone.[11] Why? Because groups provide anonymity, thus giving individuals—who might otherwise be afraid of getting caught—a false sense of security.

CONFORMITY. Because individuals want to be accepted by groups to which they belong, they're susceptible to pressures to conform. Early experiments done by Solomon

From food servers to hostesses and supervisors, all employees at Johnny Rockets restaurants are expected to join in to sing "Happy Birthday" when a customer is celebrating his or her special day. Employees are also expected to be friendly and fun-loving as they serve and interact with their guests. As part of Johnny Rockets' nostalgic ambience, waiters and waitresses are expected to wear bow ties, bib aprons, and hats to project an all-American look that matches the restaurant's décor. Common organizational norms related to work effort and dress are powerful influences on individual employees' performance.

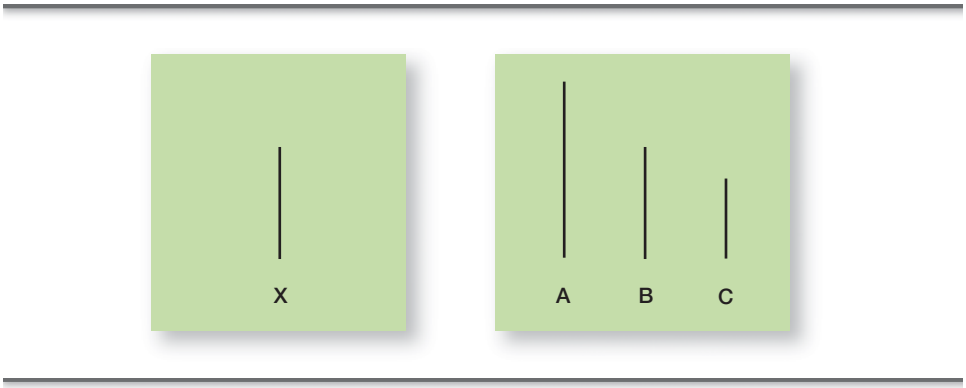


EXHIBIT 13-4
Examples of Asch's Cards

Asch demonstrated the impact that conformity has on an individual's judgment and attitudes.[12] In these experiments, groups of seven or eight people were asked to compare two cards held up by the experimenter. One card had three lines of different lengths and the other had one line which was equal in length to one of the three lines on the other card (see Exhibit 13-4). Each group member was to announce aloud which of the three lines matched the single line. Asch wanted to see what would happen if members began to give incorrect answers. Would pressures to conform cause individuals to give wrong answers just to be consistent with the others? The experiment was "fixed" so that all but one of the members (the unsuspecting subject) were told ahead of time to start giving obviously incorrect answers after one or two rounds. Over many experiments and trials, the unsuspecting subject conformed over a third of the time.

Are these conclusions still valid? Research suggests that conformity levels have declined since Asch's studies. However, managers can't ignore conformity because it can still be a powerful force in groups.[13] Group members often want to be seen as one of the group and avoid being visibly different. We find it more pleasant to agree than to be disruptive, even if being disruptive may improve the group's effectiveness. So we conform. But conformity can go too far, especially when an individual's opinion differs significantly from that of others in the group. In such a case, the group often exerts intense pressure on the individual to align his or her opinion to conform to others' opinions, a phenomenon known as **groupthink**. Groupthink seems to occur when group members hold a positive group image that they want to protect and when the group perceives a collective threat to this positive image.[14]

STATUS SYSTEMS. Status systems are an important factor in understanding groups. **Status** is a prestige grading, position, or rank within a group. As far back as researchers have been able to trace groups, they have found status hierarchies. Status can be a significant motivator with behavioral consequences especially when individuals see a disparity between what they perceive their status to be and what others perceive it to be.

Status may be informally conferred by characteristics such as education, age, skill, or experience. Anything can have status value if others in the group evaluate it that way. Of course, just because status is informal doesn't mean that it's unimportant or that it's hard to determine who has it or who does not. Group members have no problem placing people into status categories and usually agree about who has high or low status.

Status is also formally conferred, and it's important for employees to believe that the organization's formal status system is congruent—that is, the system shows consistency

norms
Standards or expectations that are accepted and shared by a group's members

groupthink
When a group exerts extensive pressure on an individual to align his or her opinion with others' opinions

status
A prestige grading, position, or rank within a group

between the perceived ranking of an individual and the status symbols he or she is given by the organization. For instance, status incongruence would occur when a supervisor earns less than his or her subordinates, a desirable office is occupied by a person in a low-ranking position, or paid country club memberships are provided to division managers but not to vice presidents. Employees expect the "things" an individual receives to be congruent with his or her status. When they're not, employees may question the authority of their managers and may not be motivated by job promotion opportunities.

GROUP SIZE. What's an appropriate size for a group? At Amazon, work teams have considerable autonomy to innovate and to investigate their ideas. And Jeff Bezos, founder and CEO, uses a "two-pizza" philosophy; that is, a team should be small enough that it can be fed with two pizzas. This "two-pizza" philosophy usually limits groups to five to seven people depending, of course, on team member appetites.[15]

Group size affects performance and satisfaction, but the effect depends on what the group is supposed to accomplish.[16] Research indicates, for instance, that small groups are faster at completing tasks than are larger ones. However, for groups engaged in problem solving, large groups consistently get better results than smaller ones. What do these findings mean in terms of specific numbers? Large groups—those with a dozen or more members—are good for getting diverse input. Thus, if the goal of the group is to find facts, a larger group should be more effective. On the other hand, smaller groups—from five to seven members—are better at doing something productive with those facts.

One important research finding related to group size concerns **social loafing**, which is the tendency for an individual to expend less effort when working collectively than when working individually.[17] Social loafing may occur because people believe that others in the group aren't doing their fair share. Thus, they reduce their work efforts in an attempt to make the workload more equivalent. Also, the relationship between an individual's input and the group's output is often unclear. Thus, individuals may become "free riders" and coast on the group's efforts because individuals believe that their contribution can't be measured.

The implications of social loafing are significant. When managers use groups, they must find a way to identify individual efforts. If not, group productivity and individual satisfaction may decline.[18]

GROUP COHESIVENESS. Cohesiveness is important because it has been found to be related to a group's productivity. Groups in which there's a lot of internal disagreement and lack of cooperation are less effective in completing their tasks than are groups in which members generally agree, cooperate, and like each other. Research in this area has focused on **group cohesiveness**, or the degree to which members are attracted to a group and share the group's goals.[19]

Research has generally shown that highly cohesive groups are more effective than are less cohesive ones.[20] However, the relationship between cohesiveness and effectiveness is complex. A key moderating variable is the degree to which the group's attitude aligns with its goals or with the goals of the organization.[21] (See Exhibit 13-5.) The more cohesive the group, the more its members will follow its goals. If the goals are desirable (for instance, high output, quality work, cooperation with individuals outside the group), a cohesive group is more productive than a less cohesive group. But if cohesiveness is high and attitudes are unfavorable, productivity decreases. If cohesiveness is low but goals are supported, productivity increases but not as much as when both cohesiveness and support are high. When cohesiveness is low and goals are not supported, productivity is not significantly affected.

GROUP PROCESSES. The next factor that determines group performance and satisfaction concerns the processes that go on within a work group such as communication, decision making, conflict management, and the like. These processes are important to understanding work groups because they influence group performance and satisfaction positively or negatively. An example of a positive process factor is the synergy of four

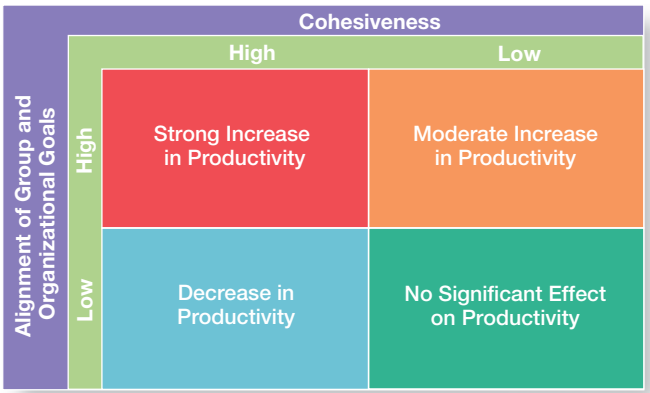


EXHIBIT 13-5
Group Cohesiveness and Productivity

people on a marketing research team who are able to generate far more ideas as a group than the members could produce individually. However, the group also may have negative process factors such as social loafing, high levels of conflict, or poor communication, which may hinder group effectiveness. We'll look at two important group processes: group decision making and conflict management.

GROUP DECISION MAKING. It's a rare organization that doesn't use committees, task forces, review panels, study teams, or other similar groups to make decisions. Studies show that managers may spend up to 30 hours a week in group meetings.[22] Undoubtedly, a large portion of that time is spent formulating problems, developing solutions, and determining how to implement the solutions. It's possible, in fact, for groups to be assigned any of the eight steps in the decision-making process. (Refer to Chapter 7 to review these steps.)

What advantages do group decisions have over individual decisions? One is that groups generate more complete information and knowledge. They bring a diversity of experience and perspectives to the decision process that an individual cannot. In addition, groups generate more diverse alternatives because they have a greater amount and diversity of information. Next, groups increase acceptance of a solution. Group members are reluctant to fight or undermine a decision that they helped develop. Finally, groups increase legitimacy. Decisions made by groups may be perceived as more legitimate than decisions made by one person.

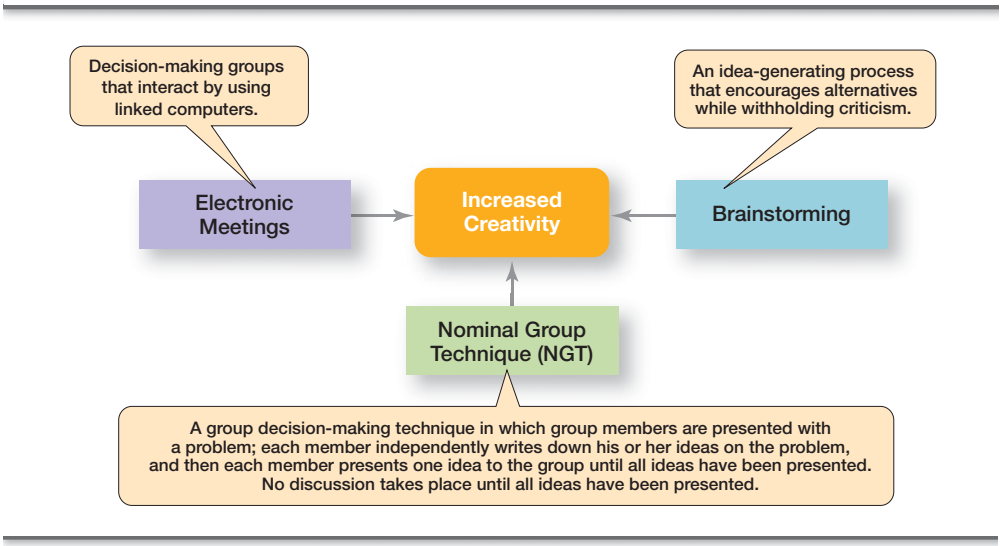
Group decisions also have disadvantages. One is that groups almost always take more time to reach a solution than it would take an individual. Another is that a dominant and vocal minority can heavily influence the final decision. In addition, groupthink can undermine critical thinking in the group and harm the quality of the final decision.[23] Finally, in a group, members share responsibility, but the responsibility of any single member is ambiguous.

Determining whether groups are effective at making decisions depends on the criteria used to assess effectiveness.[24] If accuracy, creativity, and degree of acceptance are important, then a group decision may work best. However, if speed and efficiency are important, then an individual decision may be the best. In addition, decision effectiveness is influenced by group size. Although a larger group provides more diverse representation, it also requires more coordination and time for members to contribute their ideas. Evidence indicates that groups of five, and to a lesser extent seven, are the most effective for making decisions.[25]

social loafing
The tendency for individuals to expend less effort when working collectively than when working individually

group cohesiveness
The degree to which group members are attracted to one another and share the group's goals

EXHIBIT 13-6
Creative Group Decision Making



Having an odd number in the group helps avoid decision deadlocks. Also, these groups are large enough for members to shift roles and withdraw from unfavorable positions but still small enough for quieter members to participate actively in discussions.

What techniques can managers use to help groups make more creative decisions? Exhibit 13-6 describes three possibilities.

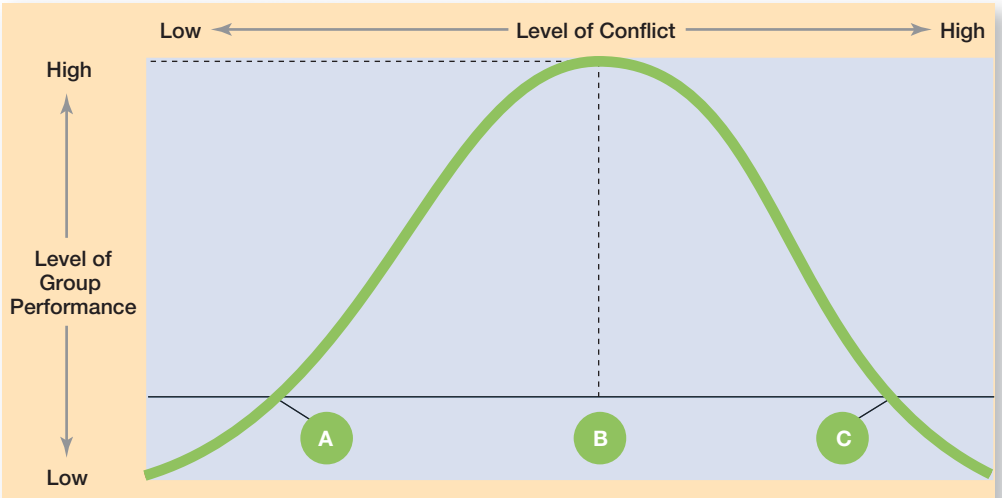
CONFLICT MANAGEMENT. Another important group process is how a group manages conflict. As a group performs its assigned tasks, disagreements inevitably arise. **Conflict** is *perceived* incompatible differences resulting in some form of interference or opposition. Whether the differences are real is irrelevant. If people in a group perceive that differences exist, then there is conflict.

Three different views have evolved regarding conflict.[26] The **traditional view of conflict** argues that conflict must be avoided—that it indicates a problem within the group. Another view, the **human relations view of conflict**, argues that conflict is a natural and inevitable outcome in any group and need not be negative, but has potential to be a positive force in contributing to a group's performance. The third and most recent view, the **interactionist view of conflict**, proposes that not only can conflict be a positive force in a group but that some conflict is *absolutely necessary* for a group to perform effectively.

The interactionist view doesn't suggest that all conflicts are good. Some conflicts—**functional conflicts**—are constructive and support the goals of the work group and improve its performance. Other conflicts—**dysfunctional conflicts**—are destructive and prevent a group from achieving its goals. Exhibit 13-7 illustrates the challenge facing managers.

When is conflict functional and when is it dysfunctional? Research indicates that you need to look at the *type* of conflict.[27] **Task conflict** relates to the content and goals of the work. **Relationship conflict** focuses on interpersonal relationships. **Process conflict** refers to how the work gets done. Research shows that *relationship* conflicts are almost always dysfunctional because the interpersonal hostilities increase personality clashes and decrease mutual understanding and the tasks don't get done. On the other hand, low levels of process conflict and low-to-moderate levels of task conflict are functional. For *process* conflict to be productive, it must be minimal. Otherwise, intense arguments over who should do what may become dysfunctional and can lead to uncertainty about task assignments, increase the time to complete tasks, and result in members working at cross-purposes. However, a low-to-moderate level of *task* conflict consistently has a positive effect on group performance because it stimulates discussion of ideas that help groups be

EXHIBIT 13-7
Conflict and Group Performance



Situation	A	B	C
Level of Conflict	Low or none	Optimal	High
Type of Conflict	Dysfunctional	Functional	Dysfunctional
Group's Internal Characteristics	Apathetic Stagnant Unresponsive to Change Lack of New Ideas	Viable Self-Critical Innovative	Disruptive Chaotic Uncooperative
Level of Group Performance	Low	High	Low

more innovative.[28] Because we don't yet have a sophisticated measuring instrument for assessing whether conflict levels are optimal, too high, or too low, the manager must try to judge that intelligently.

When group conflict levels are too high, managers can select from five conflict management options: avoidance, accommodation, forcing, compromise, and collaboration.[29] (See Exhibit 13-8 for a description of these techniques.) Keep in mind that no one option is ideal for every situation. Which approach to use depends upon the circumstances.

Have you ever been part of a class group in which all teammates received the same grade even though some team members didn't fulfill their responsibilities? How did that make you feel? Did it create conflict within the group and did you feel that the process and outcome were unfair? Recent research also has shown that organizational justice or fairness is an important aspect of managing group conflict.[30] How group members feel about how they're being treated both by each other within the group and by outsiders can affect their work attitudes and behaviors. To promote the sense of fairness, it's important that group leaders build a strong sense of community based on fair and just treatment.

conflict
Perceived incompatible differences that result in interference or opposition

traditional view of conflict
The view that all conflict is bad and must be avoided

human relations view of conflict
The view that conflict is a natural and inevitable outcome in any group

interactionist view of conflict
The view that some conflict is necessary for a group to perform effectively

functional conflicts
Conflicts that support a group's goals and improve its performance

dysfunctional conflicts
Conflicts that prevent a group from achieving its goals

task conflict
Conflicts over content and goals of the work

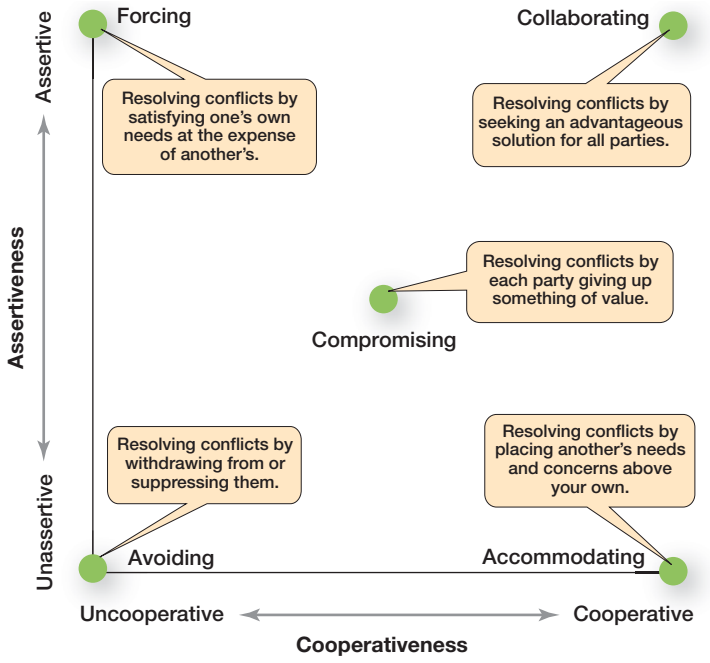
relationship conflict
Conflict based on interpersonal relationships

process conflict
Conflict over how work gets done

EXHIBIT 13-8

Conflict-Management Techniques

Source: K. Thomas, "Conflict and Negotiation Process in Organizations," in M. D. Dunnette and L. J. Hough (eds.), *Handbook of Industrial and Organizational Psychology*, 2 ed. vol. 3 (Palo Alto, CA: Consulting Psychologists Press, 1992), p. 668. Used with permission by Leaetta Hough-Dunnette.



Group Tasks

At Hackensack University Medical Center in New Jersey, daily reviews of each patient in each nursing unit are conducted in MDRs (multidisciplinary rounds) by teams of nurses, case managers, social workers, and an in-hospital doctor. These teams perform tasks such as prescribing drugs or even recommending a patient be discharged. Employee teams at Lockheed Martin's New York facility custom build complex products such as ground-based radar systems using continuous quality improvement techniques. The six people in the Skinny Improv group in Springfield, Missouri, perform their unique brand of comedy every weekend in a downtown venue.[31] Each of these groups has a different type of task to accomplish.

As the group performance/satisfaction model shows, the impact that group processes have on group performance and member satisfaction is modified by the task the group is doing. More specifically, it's the *complexity* and *interdependence* of tasks that influence a group's effectiveness.[32]

Tasks are either simple or complex. Simple tasks are routine and standardized. Complex tasks tend to be novel or nonroutine. It appears that the more complex the task, the more a group benefits from group discussion about alternative work methods. Group members don't need to discuss such alternatives for a simple task, but can rely on standard operating procedures. Similarly, a high degree of interdependence among the tasks that group members must

FUTURE VISION

The Working World in 2020

Successful organizations will come to recognize that functional conflict—in the form of tolerating dissent—makes an organization stronger, not weaker. Tomorrow's organizations will use blogs, social networking sites, and other vehicles to allow employees to question practices, criticize decisions, and offer improvement suggestions.

The historical practice of minimizing conflict and seeking "peace at any price" didn't produce harmony and loyalty. It merely masked employee concerns and frustrations. To maintain competitiveness, organizations will see conflict in a positive light. And the result will be organizations that adapt faster, generate more and better ideas, and have employees who aren't threatened by saying what's on their minds.

perform means they'll need to interact more. Thus, effective communication and controlled conflict are most relevant to group performance when tasks are complex and interdependent.

Turning Groups into Effective Teams

13.3

LEARNING OUTCOME
Define teams and best practices influencing team performance.

When companies like W. L. Gore, Volvo, and Kraft Foods introduced teams into their production processes, it made news because no one else was doing it. Today, it's just the opposite—the organization that *doesn't* use teams would be newsworthy. It's estimated that some 80 percent of *Fortune* 500 companies have at least half of their employees on teams. And 83 percent of respondents in a Center for Creative Leadership study said that teams are a key ingredient to organizational success.[33] Without a doubt, team-based work is a core feature of today's organizations. And teams are likely to continue to be popular. Why? Research suggests that teams typically outperform individuals when the tasks being done require multiple skills, judgment, and experience.[34] Organizations are using team-based structures because they've found that teams are more flexible and responsive to changing events than are traditional departments or other permanent work groups. Teams have the ability to quickly assemble, deploy, refocus, and disband. In this section, we'll discuss what a work team is, the different types of teams that organizations might use, and how to develop and manage work teams.

What Is a Work Team?

Most of you are probably familiar with teams especially if you've watched or participated in organized sports events. Work *teams* differ from work *groups* and have their own unique traits (see Exhibit 13-9). Work groups interact primarily to share information and to make decisions to help each member do his or her job more efficiently and effectively. There's no need or opportunity for work groups to engage in collective work that requires joint effort. On the other hand, **work teams** are groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills. For instance, at the Sparta, Tennessee, facility of Philips Professional Luminaires, a work team came up with a startling innovation. One team member was commenting on the efficient way that Subway restaurants make their sandwiches

Team-based work is a key ingredient to the success of IBM Corporation. Michael Karasick (center) is the director of Lotus Development at IBM China Software Development Laboratory who leads a team of 800 developers and support staff in Beijing. The China laboratory is one of eight research centers IBM operates throughout the world where large teams benefit from the cross pollination of employees' ideas, experience, and expertise in a broad range of disciplines. Team members work together to find solutions for complicated business problems and to achieve scientific and engineering breakthroughs that lead to innovative IBM products and services.

work teams
Groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills

EXHIBIT 13-9
Groups Versus Teams

Work Teams	Work Groups
• Leadership role is shared	• One leader clearly in charge
• Accountable to self and team	• Accountable only to self
• Team creates specific purpose	• Purpose is same as broader organizational purpose
• Work is done collectively	• Work is done individually
• Meetings characterized by open-ended discussion and collaborative problem-solving	• Meetings characterized by efficiency; no collaboration or open-ended discussion
• Performance is measured directly by evaluating collective work output	• Performance is measured indirectly according to its influence on others
• Work is decided upon and done together	• Work is decided upon by group leader and delegated to individual group members
• Can be quickly assembled, deployed, refocused, and disbanded	

Sources: J. R. Katzenbach and D. K. Smith, "The Wisdom of Teams," *Harvard Business Review*, July–August 2005, p. 161; A. J. Fazzari and J. B. Mosca, "Partners in Perfection: Human Resources Facilitating Creation and Ongoing Implementation of Self-Managed Manufacturing Teams in a Small Medium Enterprise," *Human Resource Development Quarterly,* Fall 2009, pp. 353–376.

with workers lining up all their ingredients in an easy-to-reach, highly adaptable format. The team decided to apply that same flexible principle to their work of producing lighting fixtures and together figured out a way to make that happen.[35]

Types of Work Teams

Teams can do a variety of things. They can design products, provide services, negotiate deals, coordinate projects, offer advice, and make decisions.[36] For instance, at Rockwell Automation's facility in North Carolina, teams are used in work process optimization projects. At Sylvania, the New Ventures Group creates cool LED-based products. At Arkansas-based Acxiom Corporation, a team of human resource professionals planned and implemented a cultural change. And every summer weekend at any NASCAR race, you can see work teams in action during drivers' pit stops.[37] The four most common types of work teams are problem-solving teams, self-managed work teams, cross-functional teams, and virtual teams.

When work teams first became popular, most were **problem-solving teams**, which are teams from the same department or functional area involved in efforts to improve work activities or to solve specific problems. Members share ideas or offer suggestions on how work processes and methods can be improved. However, these teams are rarely given the authority to implement any of their suggested actions.

Although problem-solving teams were helpful, they didn't go far enough in getting employees involved in work-related decisions and processes. This shortcoming led to another type of team, a **self-managed work team**, which is a formal group of employees who operate without a manager and are responsible for a complete work process or segment. A self-managed team is responsible for getting the work done *and* for managing themselves, which usually includes planning and scheduling of work, assigning tasks to members, collective control over the pace of work, making operating decisions, and taking action on problems. For instance, teams at Corning have no shift supervisors and work closely with other manufacturing divisions to solve production-line problems and coordinate deadlines and deliveries. The teams have the authority to make and implement decisions, finish projects, and address problems.[38] Other organizations such as Xerox, Boeing, PepsiCo, and Hewlett-Packard also use self-managed teams. An estimated 30 percent of U.S. employers now use this form of team; among large firms, the

number is probably closer to 50 percent.[39] Most organizations that use self-managed teams find them to be effective.[40]

The third type of team is the **cross-functional team**, which we introduced in Chapters 10 and 11 and defined as a work team composed of individuals from various functional specialties. Many organizations use cross-functional teams. For example, ArcelorMittal, the world's biggest steel company, uses cross-functional teams of scientists, plant managers, and salespeople to review and monitor product innovations. [41] The concept of cross-functional teams is even being applied in health care. For instance, at Suburban Hospital in Bethesda, Maryland, intensive care unit (ICU) teams composed of a doctor trained in intensive care medicine, a pharmacist, a social worker, a nutritionist, the chief ICU nurse, a respiratory therapist, and a chaplain meet daily with every patient's bedside nurse to discuss and debate the best course of treatment. The hospital credits this team care approach with reducing errors, shortening the amount of time patients spent in ICU, and improving communication between families and the medical staff.[42]

The final type of team is the **virtual team**, which is a team that uses technology to link physically dispersed members in order to achieve a common goal. For instance, a virtual team at Boeing-Rocketdyne played a pivotal role in developing a radically new product.[43] Another company, Decision Lens, uses a virtual team environment to generate and evaluate creative ideas.[44] In a virtual team, members collaborate online with tools such as wide-area networks, videoconferencing, fax, e-mail, or Web sites where the team can hold online conferences.[45] Virtual teams can do all the things that other teams can—share information, make decisions, and complete tasks; however, they lack the normal give-and-take of face-to-face discussions. That's why virtual teams tend to be more task-oriented especially if the team members have never met in person.

Creating Effective Work Teams

As our chapter opener illustrated, teams are not always effective. They don't always achieve high levels of performance. However, research on teams provides insights into the characteristics typically associated with effective teams.[46] These characteristics are listed in Exhibit 13-10. One element that you might notice is missing but think is important to being an effective team is that a team be harmonious and friendly.[47] In fact, friendliness is not a necessary ingredient. Even a grumpy team can be effective if these other team characteristics are present. When a team is productive, has done something good together, and is recognized for its efforts, team members can feel good about their effectiveness.

CLEAR GOALS. High-performance teams have a clear understanding of the goal to be achieved. Members are committed to the team's goals, know what they're expected to accomplish, and understand how they will work together to achieve these goals.

RELEVANT SKILLS. Effective teams are composed of competent individuals who have the necessary technical and interpersonal skills to achieve the desired goals while working well together. This last point is important because not everyone who is technically competent has the interpersonal skills to work well as a team member.

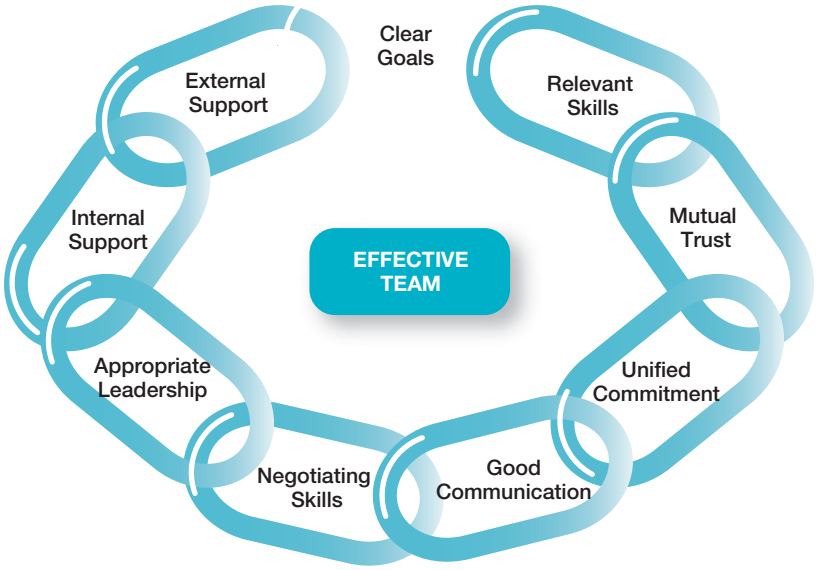
problem-solving team
A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems

self-managed work team
A type of work team that operates without a manager and is responsible for a complete work process or segment

cross-functional team
A work team composed of individuals from various functional specialties

virtual team
A type of work team that uses technology to link physically dispersed members in order to achieve a common goal

EXHIBIT 13-10
Characteristics of Effective Teams



MUTUAL TRUST. Effective teams are characterized by high mutual trust among members. That is, members believe in each other's ability, character, and integrity. But as you probably know from personal relationships, trust is fragile. Maintaining this trust requires careful attention by managers.

UNIFIED COMMITMENT. Unified commitment is characterized by dedication to the team's goals and a willingness to expend extraordinary amounts of energy to achieve them. Members of an effective team exhibit intense loyalty and dedication to the team and are willing to do whatever it takes to help their team succeed.

GOOD COMMUNICATION. Not surprisingly, effective teams are characterized by good communication. Members convey messages, verbally and nonverbally, between each other in ways that are readily and clearly understood. Also, feedback helps guide team members and correct misunderstandings. Like a couple who has been together for many years, members of high-performing teams are able to quickly and efficiently share ideas and feelings.

NEGOTIATING SKILLS. Effective teams are continually making adjustments to whom does what. This flexibility requires team members to possess negotiating skills. Because problems and relationships regularly change within teams, members need to be able to confront and reconcile differences.

APPROPRIATE LEADERSHIP. Effective leaders are important. They can motivate a team to follow them through the most difficult situations. How? By clarifying goals, demonstrating that change is possible by overcoming inertia, increasing the self-confidence of team members, and helping members to more fully realize their potential. Increasingly, effective team leaders act as coaches and facilitators. They help guide and support the team, but don't control it. Studies have shown that when a team leader's emotional displays—positive *and* negative—are used at appropriate times, the team's functioning and performance can be enhanced.[48]

INTERNAL AND EXTERNAL SUPPORT. The final condition necessary for an effective team is a supportive climate. Internally, the team should have a sound infrastructure

which means proper training, a clear and reasonable measurement system that team members can use to evaluate their overall performance, an incentive program that recognizes and rewards team activities, and a supportive human resource system. The right infrastructure should support members and reinforce behaviors that lead to high levels of performance. Externally, managers should provide the team with the resources needed to get the job done.

Current Challenges in Managing Teams

13.4 LEARNING OUTCOME
Discuss contemporary issues in managing teams.

Few trends have influenced how work gets done in organizations as much as the use of work teams. The shift from working alone to working on teams requires employees to cooperate with others, share information, confront differences, and sublimate personal interests for the greater good of the team. Managers can build effective teams by understanding what influences performance and satisfaction. However, managers also face some current challenges in managing teams, primarily those associated with managing global teams, building team skills, and understanding organizational social networks.

Managing Global Teams

Two characteristics of today's organizations are obvious: They're global and work is increasingly done by teams. These two aspects mean that any manager is likely to have to manage a global team. What do we know about managing global teams? We know there are both drawbacks and benefits in using global teams (see Exhibit 13-11). Using our group model as a framework, we can see some of the issues associated with managing global teams.

GROUP MEMBER RESOURCES IN GLOBAL TEAMS. In global organizations, understanding the relationship between group performance and group member resources is more challenging because of the unique cultural characteristics represented by members of a global team. In addition to recognizing team members' abilities, skills, knowledge, and personality, managers need to be familiar with and clearly understand the cultural characteristics of the groups and the group members they manage.[50] For instance, is the global team from a culture in which uncertainty avoidance is high? If so, members will not be comfortable dealing with unpredictable and ambiguous tasks.

Do you know what one of the most important pieces of real estate is on the Internet? Yes, it's Google's search results page.[49] And Marissa Mayer, vice president of search products and user experience, recognizes how important that page's design is. For the eighth iteration, which she called "particularly large and particularly important," the task was turned over to a core design team of 16 staffers from engineering, design, and five other departments. A lot was riding on the redesign, meaning the cross-functional team's efforts were particularly important. However, with Mayer's confidence in their combined abilities, the team collaborated in a process marked by wild illustrations and precise mathematical code to create the page design.

Drawbacks	Benefits
• Dislike of team members • Mistrust of team members • Stereotyping • Communication problems • Stress and tension	• Greater diversity of ideas • Limited groupthink • Increased attention on understanding others' ideas, perspectives, etc.

Source: Based on N. Adler, *International Dimensions in Organizational Behavior*, 4th ed. (Cincinnati, OH: South-Western Publishing, 2002), pp. 141–147.

EXHIBIT 13-11
Global Teams

Also, as managers work with global teams, they need to be aware of the potential for stereotyping, which can lead to problems.

GROUP STRUCTURE. Some of the structural areas where we see differences in managing global teams include conformity, status, social loafing, and cohesiveness.

Are conformity findings generalizable across cultures? Research suggests that Asch's findings are culture-bound.[51] For instance, as might be expected, conformity to social norms tends to be higher in collectivistic cultures than in individualistic cultures. Despite this tendency, however, groupthink tends to be less of a problem in global teams because members are less likely to feel pressured to conform to the ideas, conclusions, and decisions of the group.[52]

Also, the importance of status varies between cultures. The French, for example, are extremely status conscious. Also, countries differ on the criteria that confer status. For instance, in Latin America and Asia, status tends to come from family position and formal roles held in organizations. In contrast, while status is important in countries like the United States and Australia, it tends to be less "in your face." And it tends to be given based on accomplishments rather than on titles and family history. Managers must understand who and what holds status when interacting with people from a culture different from their own. An American manager who doesn't understand that office size isn't a measure of a Japanese executive's position or who fails to grasp the importance the British place on family genealogy and social class is likely to unintentionally offend others and lessen his or her interpersonal effectiveness.

Social loafing has a Western bias. It's consistent with individualistic cultures, like the United States and Canada, which are dominated by self-interest. It's not consistent with collectivistic societies, in which individuals are motivated by group goals. For instance, in studies comparing employees from the United States with employees from the People's Republic of China and Israel (both collectivistic societies), the Chinese and Israelis showed no propensity to engage in social loafing. In fact, they actually performed better in a group than when working alone.[53]

Cohesiveness is another group structural element where managers may face special challenges. In a cohesive group, members are unified and "act as one." These groups exhibit a great deal of camaraderie, and group identity is high. In global teams, however, cohesiveness is often more difficult to achieve because of higher levels of "mistrust, miscommunication, and stress."[54]

GROUP PROCESSES. The processes that global teams use to do their work can be particularly challenging for managers. For one thing, communication issues often arise because not all team members may be fluent in the team's working language. This can lead to inaccuracies, misunderstandings, and inefficiencies.[55] However, research also has shown that a multicultural global team is better able to capitalize on the diversity of ideas represented if a wide range of information is used.[56]

Managing conflict in global teams isn't easy, especially when those teams are virtual teams. Conflict can interfere with how information is used by the team. However, research shows that in collectivistic cultures, a collaborative conflict management style can be most effective.[57]

MANAGER'S ROLE. Despite the challenges associated with managing global teams, managers can provide the group with an environment in which efficiency and effectiveness are enhanced.[58] First, because communication skills are vital, managers should focus on developing those skills. Also, as we've said earlier, managers must consider cultural differences when deciding what type of global team to use. For instance, evidence suggests that self-managed teams have not fared well in Mexico largely due to that culture's low tolerance of ambiguity and uncertainty and employees' strong respect for hierarchical authority.[59] Finally, it's vital that managers be sensitive to the unique differences of each member of the global team, but it's also important that team members be sensitive to each other.

Building Team Skills

Participating in team-building exercises helps Verizon Wireless employees who work from different locations throughout the country learn how to collaborate and cooperate better. Verizon's technical specialists in this photo communicate mostly by electronics from their geographically dispersed workplaces. Periodically they meet face-to-face to learn skills that help them bond, rely on each other, and function as committed team members. Equipped with GPS systems, the technicians are shown here during a scavenger hunt team-building exercise in which they work together to find clues for answering a list of questions.

Have you ever participated in a team-building exercise? Such exercises are commonly used to illustrate and develop specific aspects or skills of being on a team. For instance, maybe you've completed *Lost on the Moon* or *Stranded at Sea* or some other written exercise in which you rank-order what items are most important to your survival. Then, you do the same thing with a group—rank-order the most important items. The rank-ordered items are compared against some expert ranking to see how many you got "right." The intent of the exercise is to illustrate how much more effective decisions can be when made as a team. Or maybe you've been part of a trust-building exercise in which you fall back and team members catch you or an exercise in which your team had to figure out how to get all members across an imaginary river or up a rock wall. Such exercises help teams bond or connect and learn to rely on one another. One of the important tasks managers have is building effective teams.[60] These types of team-building exercises can be an important part of that process. And team building efforts can work. For example, a research project that looked at star performers with poor team skills who went through two cycles of team-building exercises found that those individuals learned how to collaborate better.[61]

With the emphasis on teams in today's organizations, managers need to recognize that people don't automatically know how to be part of a team or to be an effective team member. Like any behavior, sometimes you have to learn about the skill and then keep practicing and reinforcing it. In building team skills, managers must view their role as more of being a coach and developing team members in order to create more committed, collaborative, and inclusive teams.[62] It's important to recognize that not everyone is a team player or can learn to be a team player. If attempts at team building aren't working, then maybe it's better to put those people in positions where their work is done individually.

Understanding Social Networks

We can't leave this chapter on managing teams without looking at the patterns of informal connections among individuals within groups—that is, at the **social network structure**.[63] What actually happens *within* groups? How *do* group members relate to each other and how does work get done?

Managers need to understand the social networks and social relationships of work groups. Why? Because a group's informal social relationships can help or hinder its effectiveness. For instance, research on social networks has shown that when people need help getting a job done, they'll choose a friendly colleague over someone who may be more capable.[64] Another recent review of team studies showed that teams with high levels of interpersonal interconnectedness actually attained their goals better and were more committed to staying together.[65] Organizations are recognizing the practical benefits of knowing the social networks within teams. For instance, when Ken Loughridge, an IT manager with MWH Global, was transferred from Cheshire, England, to New Zealand, he had a "map" of the informal relationships and connections among company IT employees. This map had been created a few months before using the results of a survey that asked employees who they "consulted most frequently, who they turned to for expertise, and who either boosted or drained their energy levels." Not only did this map help him

social network structure
The patterns of informal connections among individuals within a group

identify well-connected technical experts, it helped him minimize potential problems when a key manager in the Asia region left the company because Loughridge knew who this person's closest contacts were. Loughridge said, "It's as if you took the top off an ant hill and could see where there's a hive of activity. It really helped me understand who the players were."[66]

What Would You Do?

Let's Get Real:

My Response *to A Manager's Dilemma, page 346*

Tracy K. Tunwall
Assistant Professor of Business
Mount Mercy University
Cedar Rapids, IA

When teams fail, it is typically due to a lack of ability or a failure of motivation. This team clearly had the ability, and they were expected to win. It sounds like there was failure in leadership to get everyone rowing in the same direction. Top athletes can be difficult to manage, but that is what great coaches are able to do. A lot of conflict between the players and the coaches was evident, including players being removed from the team, press leaks, and a public protest of the training session. Players may have felt anonymous, or that the coaches did not do enough to get to know the players and tap into their individual motivations. The coaches may have done a poor job in helping players draw the line of sight from their individual contributions and actions to the overall outcomes for the team. Other than winning a game, maybe they didn't receive good measurements of what success means, or receive rewards for positive contributions.

The most fundamental problem outlined in the case was the lack of trust. Trust is a necessity for any successful team. If you do not trust people you will not resolve problems because you cannot share information. When problems arise, members will not work with each other because they don't know how the information will be used. If you don't think someone has your best interests in mind, or feel they may use information against you, you don't build the relationships necessary for success.

CHAPTER SUMMARY
by Learning Outcomes

Define groups and the stages of group development.

LEARNING OUTCOME 13.1

A group is two or more interacting and interdependent individuals who come together to achieve specific goals. Formal groups are work groups that are defined by the organization's structure and have designated work assignments and specific tasks directed at accomplishing organizational goals. Informal groups are social groups.

The forming stage consists of two phases: joining the group and defining the group's purpose, structure, and leadership. The storming stage is one of intragroup conflict over who will control the group and what the group will be doing. The norming stage is when close relationships and cohesiveness develop as norms are determined. The performing stage is when group members began to work on the group's task. The adjourning stage is when the group prepares to disband.

Describe the major components that determine group performance and satisfaction.

LEARNING OUTCOME 13.2

The major components that determine group performance and satisfaction include external conditions, group member resources, group structure, group processes, and group tasks.

External conditions, such as availability of resources, organizational goals, and other factors, affect work groups. Group member resources (knowledge, skills, abilities, personality traits) can influence what members can do and how effectively they will perform in a group.

Group roles generally involve getting the work done or keeping group members happy. Group norms are powerful influences on a person's performance and dictate things such as work output levels, absenteeism, and promptness. Pressures to conform can heavily influence a person's judgment and attitudes. If carried to extremes, groupthink can be a problem. Status systems can be a significant motivator with individual behavioral consequences, especially if incongruence is a factor. What size group is most effective and efficient depends on the task the group is supposed to accomplish. Cohesiveness is related to a group's productivity.

Group decision making and conflict management are important group processes that play a role in performance and satisfaction. If accuracy, creativity, and degree of acceptance are important, a group decision may work best. Relationship conflicts are almost always dysfunctional. Low levels of process conflicts and low-to-moderate levels of task conflicts are functional. Effective communication and controlled conflict are most relevant to group performance when tasks are complex and interdependent.

Define teams and best practices influencing team performance.

LEARNING OUTCOME 13.3

Characteristics of work groups include a strong, clearly focused leader; individual accountability; purpose that's the same as the broader organizational mission; individual work product; efficient meetings; effectiveness measured by influence on others; and discusses, decides, and delegates together. Characteristics of teams include shared leadership roles; individual and mutual accountability; specific team purpose; collective work products; meetings with open-ended discussion and active problem solving; performance measured directly on collective work products; and discusses, decides, and does real work.

A problem-solving team is one that's focused on improving work activities or solving specific problems. A self-managed work team is responsible for a complete work process or segment and manages itself. A cross-functional team is composed of individuals from various specialties. A virtual team uses technology to link physically dispersed members in order to achieve a common goal.

The characteristics of an effective team include clear goals, relevant skills, mutual trust, unified commitment, good communication, negotiating skills, appropriate leadership, and internal and external support.

LEARNING OUTCOME 13.4

Discuss contemporary issues in managing teams.

The challenges of managing global teams can be seen in the group member resources, especially the diverse cultural characteristics; group structure, especially conformity, status, social loafing, and cohesiveness; group processes, especially with communication and managing conflict; and the manager's role in making it all work.

With the emphasis on teams in today's organizations, managers need to recognize that people don't automatically know how to be part of a team or to be an effective team member. Like any behavior, team members have to learn about the skill and then keep practicing and reinforcing it. In building team skills, managers must view their role as more of being a coach and developing others in order to create more committed, collaborative, and inclusive teams.

Managers need to understand the patterns of informal connections among individuals within groups because those informal social relationships can help or hinder the group's effectiveness.

PEARSON mymanagementlab

To check your understanding of learning outcomes 13.1 – 13.4 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Describe the different types of groups and the five stages of group development.
2. Explain how external conditions and group member resources affect group performance and satisfaction.
3. Discuss how group structure, group processes, and group tasks influence group performance and satisfaction.
4. Compare groups and teams.
5. Describe the four most common types of teams.
6. List the characteristics of effective teams.
7. What challenges do managers face in managing global teams? How should those challenges be handled?
8. Explain the role of informal (social) networks in managing teams.
9. How do you think scientific management theorists would react to the increased reliance on teams in organizations? How would behavioral science theorists react?
10. Why might a manager want to stimulate conflict in a group or team? How could conflict be stimulated?

PREPARING FOR: My Career

ETHICS DILEMMA

When coworkers work closely on a team project, is there such a thing as TMI (too much information)?[67] At one company, a team that had just finished a major project went out to lunch to celebrate. During lunch, one colleague mentioned that he was training for a 20-mile bike race. In addition to a discussion of his new helmet and Lycra shorts, the person also described shaving his whole body to reduce aerodynamic drag. Later, another team member said, "Why, why, why do we need to go there? This is information about a coworker, not someone I really consider a friend, and now it's forever burned in my brain." What do you think? Why are work colleagues sharing increasingly personal information? How have social media and technology contributed to this type of information disclosure? What are the ethical implications of sharing such personal information in the workplace?

SKILLS EXERCISE

Developing Your Coaching Skill

About the Skill

Effective managers are increasingly being described as coaches rather than bosses. Just like coaches, they're expected to provide instruction, guidance, advice, and encouragement to help team members improve their job performance.

Steps in Practicing the Skill

1. **Analyze ways to improve the team's performance and capabilities.** A coach looks for opportunities for team members to expand their capabilities and improve performance. How? You can use the following behaviors. Observe your team members' behaviors on a day-to-day basis. Ask questions of them: Why do you do a task this way? Can it be improved? What other approaches might be used? Show genuine interest in team members as individuals, not merely as employees. Respect them individually. Listen to each employee.
2. **Create a supportive climate.** It's the coach's responsibility to reduce barriers to development and to facilitate a climate that encourages personal performance improvement. How? You can use the following behaviors. Create a climate that contributes to a free and open exchange of ideas. Offer help and assistance. Give guidance and advice when asked. Encourage your team. Be positive and upbeat. Don't use threats. Ask, "What did we learn from this that can help us in the future?" Reduce obstacles. Assure team members that you value their contribution to the team's goals. Take personal responsibility for the outcome, but don't rob team members of their full responsibility. Validate team members' efforts when they succeed. Point to what was missing when they fail. Never blame team members for poor results.
3. **Influence team members to change their behavior.** The ultimate test of coaching effectiveness is whether an employee's performance improves. You must encourage ongoing growth and development. How can you do this? Try the following behaviors. Recognize and reward small improvements and treat coaching as a way of helping employees to continually work toward improvement. Use a collaborative style by allowing team members to participate in identifying and choosing among improvement ideas. Break difficult tasks down into simpler ones. Model the qualities that you expect from your team. If you want openness, dedication, commitment, and responsibility from your team members, demonstrate these qualities yourself.

Practicing the Skill

Collaborative efforts are more successful when every member of the group or team contributes a specific role or task toward the completion of the goal. To improve your skill at nurturing team effort, choose two of the following activities and break each one into at least six to eight separate tasks or steps. Be sure to indicate which steps are sequential, and which can be done simultaneously with others. What do you think is the ideal team size for each activity you choose?

a. Making an omelet
b. Washing the car
c. Creating a computerized mailing list
d. Designing an advertising poster
e. Planning a ski trip
f. Restocking a supermarket's produce department

WORKING TOGETHER

Team Exercise

Derek Yach, senior vice president for global health policy at PepsiCo, is assembling a team of "idealistic scientists to find alternatives to Doritos."[68] These physicians and researchers with doctorate degrees, many of whom have built their reputations at places like the Mayo Clinic, the World Health Organization, and like-minded organizations, are tasked with creating healthier options by "making the bad stuff less bad." Suppose that you were put in charge of this elite team. How would you lead it?

Form small groups of three to four individuals. Your team's task is to come up with some suggestions for leading this team. (Hint: Look at Exhibit 13-10.) Come up with a bulleted list of your ideas. Be prepared to share your ideas with the class.

MY TURN TO BE A MANAGER

- Think of a group to which you belong (or have belonged). Trace its development through the stages of group development as shown in Exhibit 13-2. How closely did its development parallel the group development model? How might the group development model be used to improve this group's effectiveness?
- Using this same group, write a report describing the following things about this group: types of roles played by whom, group norms, group conformity issues, status system, size of group and how effective/efficient it is, and group cohesiveness.
- Using the same group, describe how decisions are made. Is the process effective? Efficient? Describe what types of conflicts seem to arise most often (relationship, process, or task) and how those conflicts are handled. Add this information to your report on the group's development and structure.
- What traits do you think good team players have? Do some research to answer this question and write up a report detailing your findings using a bulleted list format.
- Select two of the characteristics of effective teams listed in Exhibit 13-10 and develop a team-building exercise for each characteristic that will help a group improve that characteristic. Be creative. Write a report describing your exercises and be sure to explain how your exercise will help a group improve or develop that characteristic.
- When working in a group (any group to which you're assigned or to which you belong), pay careful attention to what happens in the group as tasks are completed. How does the group's structure or its processes affect how successful the group is at completing its task?
- Steve's and Mary's suggested readings: Tom Rath, *Vital Friends* (Gallup Press, 2006); Jon R. Katzenbach and Douglas K. Smith, *The Wisdom of Teams: Creating the High Performance Organization* (McGraw-Hill, 2005); Patrick Lencioni, *Overcoming the 5 Dysfunctions of a Team* (Jossey-Bass, 2005); Ben Mezrich, *Bringing Down the House: The Inside Story of Six MIT Students Who Took Vegas for Millions* (Free Press, 2002); Jon R. Katzenbach and Douglas K. Smith, *The Discipline of Teams* (Wiley, 2001); and Jean Lipman-Blumen and Harold J. Leavitt, *Hot Groups* (Oxford, 1999).
- Research brainstorming and write a report to your professor explaining what it is and listing suggestions for making it an effective group decision-making tool.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What's My Attitude Toward Working in Groups? Do I Trust Others? Do Others See Me As Trusting? How Good Am I at Building and Leading a Team? What's My Preferred Conflict-Handing Style? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Aiming Higher

Bancolombia is Colombia's biggest bank.[69] At its sleek new headquarters in Medellin, there are no plush executive chairs. Instead, everyone from the bank president to assistants use identical leather and steel ergonomic chairs. The subtle message: no one here has special privileges. The chairs, the open-space offices, and a contemporary design reflect the company's organizational culture that recognizes individual contributions but heavily emphasizes teamwork. González Bacci, Bancolombia's director of human resources, says that this culture developed out of the need to integrate employees from the bank's many acquisitions and forge a single identity among employees and in the eyes of customers. "We want to reinforce the idea with our workers that achieving the group vision depends on everyone, not just on management, and we want to give

Following the acquisition of many different banks, Bancolombia built new headquarters where all design elements, from open-space offices to furniture, reflect the bank's emphasis on teamwork for the purpose of projecting a single corporate identity for employees and customers.

clients the feeling that they are dealing with just one company, so they see no difference between the different companies in the banking group."

Teamwork is crucial to the success of this approach. Managers are asked to foster cooperation and collaboration. All employees have both individual and collective goals. Anyone who wants to become a supervisor must meet the evaluation criteria that's heavily weighted toward people skills instead of technical skills.

Whatever Bancolombia is doing, it must be working. It was named by *Latin Trade* magazine as one of the best workplaces in Colombia. And it was named as one of the country award winners for best banks by *The Banker* magazine.

Discussion Questions

1. What challenges would there be to creating an effective team in an organization that was growing by acquiring other companies? How could managers deal with these challenges?
2. Why do you think teamwork is crucial to Bancolombia's efforts to forge a single identity?
3. How do identical office chairs and an open-space office contribute to the emphasis on teamwork? How important is the physical workplace environment to the development of a teamwork atmosphere?

CASE APPLICATION 2

Making Order Out of Chaos

Imagine the scene. A FedEx 727 jet and a giant U.S. Air Force cargo jet at an impasse on the taxiway, another jet trying to reach a parking spot at the terminal, another headed for a runway, U.S. Navy and Canadian helicopters swarming overhead, a Bolivian DC-10 just landing, and a Boeing 757 carrying former President Bill Clinton just landing. What a nightmare! In the first few days after the devastating earthquake in Haiti, the airport in the capital city, Port-Au-Prince, was a chaotic free-for-all.[70] Aid planes were jostling for space on the single open runway and landing randomly. Then, the evening after the earthquake, a small team of U.S. Air Force special-operations troops whose job is to control air traffic set up to do what they've been trained to do. The airport's control tower was too badly damaged to be used. So, operating from a folding table on a patch of dirt, the team worked to safely bring in much-needed supply-laden cargo jets.

It didn't take long to establish a system. Haitian aviation officials, assisted by American and Canadian air traffic controllers, contacted planes 30 or 40 miles out and kept order as the aircraft headed toward Port-au-Prince. When the planes got within 10 or 20 miles, the Air Force team of controllers took over and guided the aircraft onto the lone runway. Despite the system, the team of controllers found themselves in conflict with arriving pilots and their governments. For instance, one argument arose with a French crew over who got to land first and stay parked the longest. Despite the challenges, the small team safely directed traffic in the crowded skies. Over the days and weeks, planes were able to take off and land every five minutes, bringing in 4 million pounds of supplies.

Discussion Questions

1. As this story illustrated, sometimes teams have to move quickly. How do you get a team up and running quickly?
2. In a crisis situation such as this, what role does a team leader need to play? Explain.
3. Using Exhibit 13-10, what characteristics of effective teams would this team need? Explain.

14 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Jake Martin
Marketing Manager
Integrity Home Care
Springfield, MO

MY JOB:
I'm a marketing manager for Integrity Home Care. I manage all activities relating to external marketing of our products and services.

BEST PART OF MY JOB:
Working with a team of individuals who share the core belief that we promote products and services throughout our communities that positively affect a person's quality of life.

Understanding Individual Behavior

LEARNING OUTCOMES

14.1 **Identify** the focus and goals of individual behavior within organizations. *page 372*

14.2 **Explain** the role that attitudes play in job performance. *page 374*

14.3 **Describe** different personality theories. *page 380*

14.4 **Describe** perception and factors that influence it. *page 387*

14.5 **Discuss** learning theories and their relevance in shaping behavior. *page 390*

14.6 **Discuss** contemporary issues in organizational behavior. *page 392*

WORST PART OF MY JOB:
I thoroughly enjoy working with my team of marketing consultants; unfortunately, we have locations throughout the state of Missouri, so sometimes the three-hour "commute" can become tiring.

BEST MANAGEMENT ADVICE EVER RECEIVED:
Just out of college, I read the following quote from John C. Maxwell: "Life is 10 percent what happens to me, and 90 percent of how I react to it." That philosophy can be applied at any level of your career; from being on the front line of sales and dealing with customers, to leading a team of individuals as a manager. It truly offers perspective.

A Manager's Dilemma

"Employees first." That's the most important and crucial cultural value that HCL Technologies CEO Vineet Nayar believes will take his company into the future.[1] Although most managers think that customers should come first, Nayar's philosophy is that employee satisfaction needs to be the top priority.

As one of the largest companies in India, HCL sells various information technology product services, such as laptop, custom software development, and technology consulting. Luring and keeping top talent is one of the challenges HCL faces. And at its size, it doesn't have the atmosphere of a fun and quirky start-up.

Part of that "employee first" philosophy is a no layoff policy, which was difficult to uphold during the pressures of the economic downturn. Like its competitors, HCL had excess employees and had suspended raises. But HCL kept its promise and didn't lay off any HCLite (Nayar's name for HCL employees). As business has picked up, however, employees began looking at competitors' job offers. During the first quarter of 2010, HCL lost 22 percent of its workforce. Maybe it's time to monitor and track employee satisfaction.

What Would You Do?

Although most managers will not go as far as Vineet Nayar to promote employee satisfaction, many organizations are concerned with the attitudes of their employees. Like him, most managers want to attract and retain employees with the right attitudes and personality. They want people who show up and work hard, get along with coworkers and customers, have good attitudes, and exhibit good work behaviors in other ways. But as you're probably already aware, people don't always behave like that "ideal" employee. They job hop at the first opportunity or they may post critical comments in blogs. People differ in their behaviors and even the same person can behave one way one day and a completely different way another day. For instance, haven't you seen family members, friends, or coworkers behave in ways that prompted you to wonder: Why did they do that?

LEARNING OUTCOME 14.1
Identify the focus and goals of individual behavior within organizations.

Focus and Goals of Organizational Behavior

The material in this and the next three chapters draws heavily on the field of study that's known as *organizational behavior (OB)*. Although it's concerned with the subject of **behavior**—that is, the actions of people—**organizational behavior** is the study of the actions of people at work.

One of the challenges in understanding organizational behavior is that it addresses issues that aren't obvious. Like an iceberg, OB has a small visible dimension and a much larger hidden portion. (See Exhibit 14-1.) What we see when we look at an organization is its visible aspects: strategies, goals, policies and procedures, structure, technology, formal authority relationships, and chain of command. But under the surface are other elements that managers need to understand—elements that also influence how employees behave at work. As we'll show, OB provides managers with considerable insights into these important, but hidden, aspects of the organization. For instance, Tony Levitan, founder and former CEO of EGreetings (which is now a part of AG Interactive), found out the hard way about the power of behavioral elements. When he tried to "clean up" the company's online greeting-card site for a potential partnership with a large greeting card company, his employees rebelled. He soon realized that he shouldn't have unilaterally made such a major decision without getting input from his staff, and reversed the move.[2]

Focus of Organizational Behavior

Organizational behavior focuses on three major areas. First, OB looks at *individual behavior*. Based predominantly on contributions from psychologists, this area includes such topics as attitudes, personality, perception, learning, and motivation. Second, OB is concerned with

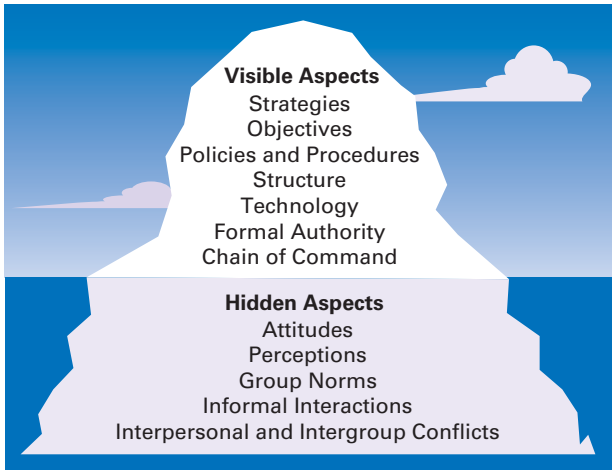


EXHIBIT 14-1
Organization as Iceberg

group behavior, which includes norms, roles, team building, leadership, and conflict. Our knowledge about groups comes basically from the work of sociologists and social psychologists. Finally, OB also looks at *organizational* aspects including structure, culture, and human resource policies and practices. We've addressed group and organizational aspects in previous chapters. In this chapter, we'll look at individual behavior.

Goals of Organizational Behavior

The goals of OB are to *explain, predict,* and *influence* behavior. Managers need to be able to *explain* why employees engage in some behaviors rather than others, *predict* how employees will respond to various actions and decisions, and *influence* how employees behave.

What employee behaviors are we specifically concerned with explaining, predicting, and influencing? Six important ones have been identified: employee productivity, absenteeism, turnover, organizational citizenship behavior (OCB), job satisfaction, and workplace misbehavior. **Employee productivity** is a performance measure of both efficiency and effectiveness. Managers want to know what factors will influence the efficiency and effectiveness of employees. **Absenteeism** is the failure to show up for work. It's difficult for work to get done if employees don't show up. Studies have shown that unscheduled absences cost companies around $660 per employee per year and result in the highest net loss of productivity per day.[3] Although absenteeism can't be totally eliminated, excessive levels have a direct and immediate impact on the organization's functioning. **Turnover** is the voluntary and involuntary permanent withdrawal from an organization. It can be a problem because of increased recruiting, selection, and training costs and work disruptions. Just like absenteeism, managers can never eliminate turnover, but it is something they want to minimize, especially among high-performing employees. **Organizational citizenship behavior (OCB)** is discretionary behavior that's not part of an employee's formal job requirements, but which promotes the effective functioning of the organization.[4] Examples of good OCBs include helping others on one's work team, volunteering for extended job activities, avoiding unnecessary conflicts, and making constructive statements about one's work group and the organization. Organizations need individuals who will do more than

behavior
The actions of people

organizational behavior
The study of the actions of people at work

employee productivity
A performance measure of both efficiency and effectiveness

absenteeism
The failure to show up for work

turnover
The voluntary and involuntary permanent withdrawal from an organization

organizational citizenship behavior (OCB)
Discretionary behavior that is not part of an employee's formal job requirements, but which promotes the effective functioning of the organization

their usual job duties, and the evidence indicates that organizations that have such employees outperform those that don't.[5] However, drawbacks of OCB occur when employees experience work overload, stress, and work–family life conflicts.[6] **Job satisfaction** refers to an employee's general attitude toward his or her job. Although job satisfaction is an attitude rather than a behavior, it's an outcome that concerns many managers because satisfied employees are more likely to show up for work, have higher levels of performance, and stay with an organization. **Workplace misbehavior** is any intentional employee behavior that is potentially harmful to the organization or individuals within the organization. Workplace misbehavior shows up in organizations in four ways: deviance, aggression, antisocial behavior, and violence.[7] Such behaviors can range from playing loud music just to irritate coworkers to verbal aggression to sabotaging work, all of which can create havoc in any organization. In the following pages, we'll address how an understanding of four psychological factors—employee attitudes, personality, perception, and learning—can help us predict and explain these employee behaviors.

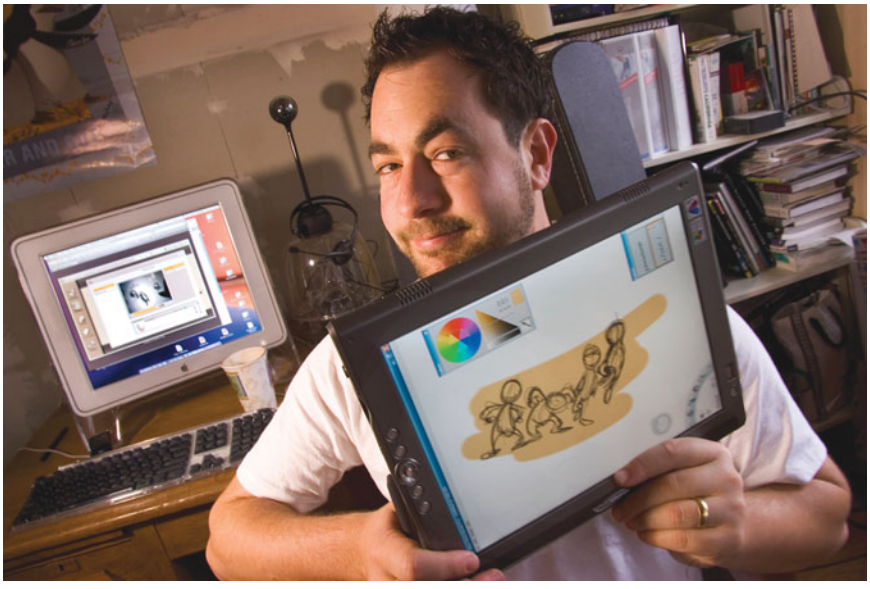
LEARNING OUTCOME 14.2
Explain the role that attitudes play in job performance.

Attitudes and Job Performance

Attitudes are evaluative statements—favorable or unfavorable—concerning objects, people, or events. They reflect how an individual feels about something. When a person says, "I like my job," he or she is expressing an attitude about work.

An attitude is made up of three components: cognition, affect, and behavior.[8] The **cognitive component** of an attitude refers to the beliefs, opinions, knowledge, or information held by a person (for instance, the belief that "discrimination is wrong"). The **affective component** of an attitude is the emotional or feeling part of an attitude. Using our example, this component would be reflected by the statement, "I don't like Pat because he discriminates against minorities." Finally, affect can lead to behavioral outcomes. The **behavioral component** of an attitude refers to an intention to behave in a certain way toward someone or something. To continue our example, I might choose to avoid Pat because of my feelings about him. Understanding that attitudes are made up of three components helps show their complexity. But keep in mind that the term *attitude* usually refers only to the affective component.

Naturally, managers aren't interested in every attitude an employee has. They're especially interested in job-related attitudes. The three most widely known are job satisfaction, job involvement, and organizational commitment. Another concept that's generating widespread interest is employee engagement.[9]



Jason Schleifer has a high level of job satisfaction and a positive attitude about his challenging job as a character animator for Dreamworks Animation SKG, a developer and producer of computer-generated films. Requiring advanced artistic and technical skills, Schleifer's job involves translating the visions of the director, production designer, and visual effects supervisor into the movement and emotion of a character within a film. He works for a company that highly values its artistic employees, provides a stimulating environment for them, allows them the freedom to express their ideas and make mistakes, and gives them great responsibility for creating original products.

Job Satisfaction

As we know from our earlier definition, job satisfaction refers to a person's general attitude toward his or her job. A person with a high level of job satisfaction has a positive attitude towards his or her job. A person who is dissatisfied has a negative attitude. When people speak of employee attitudes, they usually are referring to job satisfaction.

HOW SATISFIED ARE EMPLOYEES? Studies of U.S. workers over the past 30 years generally indicated that the majority of workers were satisfied with their jobs. However, since the 1990s, that number has been declining. A Conference Board study in 1995 found that some 60 percent of Americans were satisfied with their jobs.[10] By 2009, that percentage was down to 45 percent.[11] Although job satisfaction tends to increase as income increases, only 52 percent of individuals earning more than $50,000 are satisfied with their jobs. For individuals earning less than $15,000, about 45 percent of workers say they are satisfied with their jobs.[12] Even though it's possible that higher pay translates into higher job satisfaction, an alternative explanation for the difference in satisfaction levels is that higher pay reflects different types of jobs. Higher-paying jobs generally require more advanced skills, give jobholders greater responsibilities, are more stimulating and provide more challenges, and allow workers more control. It's more likely that the reports of higher satisfaction among higher-income levels reflect those factors rather than the pay itself.

What about job satisfaction levels in other countries? Surveys of European workers show regional variations. For instance, only 68 percent of Scandinavian workers, 67 percent of Italian workers, and 53 percent of Swiss workers report being satisfied with their jobs. Other numbers from Europe are somewhat higher: 80 percent of workers in France, 73 percent of German workers, and 72 percent of workers in Great Britain say they're satisfied with their jobs.[13] On the other hand, 60 percent of Canadian workers report being satisfied with their jobs, while 61 percent of Asia-Pacific employees are.[14]

The global recession has likely had an impact on global job satisfaction rates. For instance, a recent study by a British consulting group found that 67 percent of workers surveyed were putting in unpaid overtime. Also, 63 percent said that their employers did not appreciate their extra effort, and 57 percent felt that employees were treated like dispensable commodities.[15]

SATISFACTION AND PRODUCTIVITY. After the Hawthorne Studies (discussed in the Management History Module), managers believed that happy workers were productive workers. Because it's not been easy to determine whether job satisfaction caused job productivity or vice versa, some management researchers felt that belief was generally wrong. However, we can say with some certainty that the correlation between satisfaction and productivity is fairly strong.[16] Also, organizations with more satisfied employees tend to be more effective than organizations with fewer satisfied employees.[17]

SATISFACTION AND ABSENTEEISM. Although research shows that satisfied employees have lower levels of absenteeism than do dissatisfied employees, the correlation isn't strong.[18] It certainly makes sense that dissatisfied employees are more likely to miss work, but other factors affect the relationship. For instance, organizations that provide liberal sick leave benefits are encouraging all their employees—including those who are highly satisfied—to take "sick" days. Assuming that your job has some variety in it, you can find

job satisfaction
An employee's general attitude toward his or her job

workplace misbehavior
Any intentional employee behavior that is potentially damaging to the organization or to individuals within the organization

attitudes
Evaluative statements, either favorable or unfavorable, concerning objects, people, or events

cognitive component
That part of an attitude that's made up of the beliefs, opinions, knowledge, or information held by a person

affective component
That part of an attitude that's the emotional or feeling part

behavioral component
That part of an attitude that refers to an intention to behave in a certain way toward someone or something

work satisfying and yet still take a "sick" day to enjoy a three-day weekend or to golf on a warm spring day if taking such days results in no penalties.

SATISFACTION AND TURNOVER. Research on the relationship between satisfaction and turnover is much stronger. Satisfied employees have lower levels of turnover while dissatisfied employees have higher levels of turnover.[19] Yet, things such as labor-market conditions, expectations about alternative job opportunities, and length of employment with the organization also affect an employee's decision to leave.[20] Research suggests that the level of satisfaction is less important in predicting turnover for superior performers because the organization typically does everything it can to keep them—pay raises, praise, increased promotion opportunities, and so forth.[21]

JOB SATISFACTION AND CUSTOMER SATISFACTION. Is job satisfaction related to positive customer outcomes? For frontline employees who have regular contact with customers, the answer is "yes." Satisfied employees increase customer satisfaction and loyalty.[22] Why? In service organizations, customer retention and defection are highly dependent on how frontline employees deal with customers. Satisfied employees are more likely to be friendly, upbeat, and responsive, which customers appreciate. And because satisfied employees are less likely to leave their jobs, customers are more likely to encounter familiar faces and receive experienced service. These qualities help build customer satisfaction and loyalty. However, the relationship also seems to work in reverse. Dissatisfied customers can increase an employee's job dissatisfaction. Employees who have regular contact with customers report that rude, thoughtless, or unreasonably demanding customers adversely affect their job satisfaction.[23]

A number of companies appear to understand this connection. Service-oriented businesses such as L.L. Bean, Southwest Airlines, and Starbucks obsess about pleasing their customers. They also focus on building employee satisfaction—recognizing that satisfied employees will go a long way toward contributing to their goal of having happy customers. These firms seek to hire upbeat and friendly employees, they train employees in customer service, they reward customer service, they provide positive work climates, and they regularly track employee satisfaction through attitude surveys. For instance, at shoe retailer Zappos (now a part of Amazon.com), employees are encouraged to "create fun and a little weirdness" and have been given high levels of discretion to make customers satisfied. Zappos even offers a $2,000 bribe to employees to quit the company after training if they're not happy working there.[24]

JOB SATISFACTION AND OCB. It seems logical to assume that job satisfaction should be a major determinant of an employee's OCB.[25] Satisfied employees would seem more likely to talk positively about the organization, help others, and go above and beyond normal job expectations. Research suggests that there is a modest overall relationship between job satisfaction and OCB.[26] But that relationship is tempered by perceptions of fairness.[27] Basically, if you don't feel as though your supervisor, organizational procedures, or pay

Apple understands that satisfied employees increase customer satisfaction and loyalty. The company provides the tools and training Apple retail store employees need to satisfy customer needs. Apple hires people who are friendly, willing to help others, and are passionate about Apple products and technology and then teaches them how to work together in a collaborative environment that makes customers feel comfortable. The company helps shape a positive on-the-job attitude by teaching employees how to assess customer needs and share product knowledge and technical advice that customers appreciate in helping them make well-informed buying decisions.

policies are fair, your job satisfaction is likely to suffer significantly. However, when you perceive that these things are fair, you have more trust in your employer and are more willing to voluntarily engage in behaviors that go beyond your formal job requirements. Another factor that influences individual OCB is the type of citizenship behavior a person's work group exhibits. In a work group with low group-level OCB, any individual in that group who engaged in OCB had higher job performance ratings. One possible explanation may be that the person was trying to find some way to "stand out" from the crowd.[28] No matter why it happens, the point is that OCB can have positive benefits for organizations.

JOB SATISFACTION AND WORKPLACE MISBEHAVIOR. When employees are dissatisfied with their jobs, they'll respond somehow. The problem comes from the difficulty in predicting *how* they'll respond. One person might quit. Another might respond by using work time to play computer games. And another might verbally abuse a coworker. If managers want to control the undesirable consequences of job dissatisfaction, they'd be better off to attack the problem—job dissatisfaction—than trying to control the different employee responses. Three other job-related attitudes we need to look at include job involvement, organizational commitment, and employee engagement.

Job Involvement and Organizational Commitment

Job involvement is the degree to which an employee identifies with his or her job, actively participates in it, and considers his or her job performance to be important to his or her self-worth.[29] Employees with a high level of job involvement strongly identify with and really care about the kind of work they do. Their positive attitude leads them to contribute in positive ways to their work. High levels of job involvement have been found to be related to fewer absences, lower resignation rates, and higher employee engagement with their work.[30]

Organizational commitment is the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization.[31] Whereas job involvement is identifying with your job, organizational commitment is identifying with your employing organization. Research suggests that organizational commitment also leads to lower levels of both absenteeism and turnover and, in fact, is a better indicator of turnover than job satisfaction.[32] Why? Probably because it's a more global and enduring response to the organization than is satisfaction with a particular job.[33] However, organizational commitment is less important as a work-related attitude than it once was. Employees don't generally stay with a single organization for most of their career and the relationship they have with their employer has changed considerably.[34] Although the commitment of *an employee to an organization* may not be as important as it once was, research about **perceived organizational support**—employees' general belief that their organization values their contribution and cares about their well-being—shows that the commitment of *the organization to the employee* can be beneficial. High levels of perceived organizational support lead to increased job satisfaction and lower turnover.[35]

Employee Engagement

A low-level trader employed by Société Générale, a giant French bank, loses billions of dollars through dishonest trades and no one reports suspicious behavior. An internal investigation uncovered evidence that many back office employees failed to alert their supervisors about the suspicious trades.[36] Employee indifference can have serious consequences.

job involvement
The degree to which an employee identifies with his or her job, actively participates in it, and considers his or her job performance to be important to self-worth

organizational commitment
The degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization

perceived organizational support
Employees' general belief that their organization values their contribution and cares about their well-being

Globally, respect ranks as the no. 1 factor contributing to employee engagement.

	GLOBAL	CHINA	FRANCE	GERMANY	INDIA	JAPAN	UK	U.S.
Respect	125	121	133	129	104	90	144	122
Type of Work	112	75	138	113	116	107	122	112
Work–Life Balance	112	98	133	106	97	119	119	111
Provide Good Service to Customers	108	108	110	108	103	79	122	107
Base Pay	108	113	110	105	103	140	117	114
People You Work With	107	96	105	131	98	107	120	104
Benefits	94	127	81	110	94	75	76	112
Long-Term Career Potential	92	91	89	77	108	94	88	92
Learning and Development	91	83	67	80	98	86	85	82
Flexible Working	87	85	77	92	80	88	83	88
Promotion Opportunities	85	92	79	83	113	92	68	80
Variable Pay/Bonus	80	111	77	65	86	123	56	75

Source: Mercer

Note: Scores near 100 are middle importance, scores below 100 are less important, scores above 100 are more important.

EXHIBIT 14-2

Key Employee Engagement Factors

Source: J. Katz, "The Engagement Dance," *Industry Week*, April 2008, p. 24. © 2010 IndustryWeek. All Rights Reserved.

Managers want their employees to be connected to, satisfied with, and enthusiastic about their jobs. This concept is known as **employee engagement**.[37] Highly engaged employees are passionate about and deeply connected to their work. Disengaged employees have essentially "checked out" and don't care. They show up for work, but have no energy or passion for it. Exhibit 14-2 lists the key engagement factors found in a global study of more than 12,000 employees.

A number of benefits come from having highly engaged employees. First, highly engaged employees are two-and-a-half times more likely to be top performers than their less-engaged coworkers. In addition, companies with highly engaged employees have higher retention rates, which help keep recruiting and training costs low. And both of these outcomes—higher performance and lower costs—contribute to superior financial performance.[38]

Attitudes and Consistency

Have you ever noticed that people change what they say so it doesn't contradict what they do? Perhaps a friend of yours has repeatedly said that she thinks joining a sorority is an important part of college life. But then she goes through rush and doesn't get accepted. All of a sudden, she's saying that sorority life isn't all that great.

Research has generally concluded that people seek consistency among their attitudes *and* between their attitudes and behavior.[39] This tendency means that individuals try to reconcile differing attitudes and align their attitudes and behavior so they appear rational and consistent. When they encounter an inconsistency, individuals will do something to make it consistent by altering the attitudes, altering the behavior, or rationalizing the inconsistency.

For example, a campus recruiter for R&S Information Services who visits college campuses and sells students on the advantages of R&S as a good place to work would experience inconsistency if he personally believed that R&S had poor working conditions and few opportunities for promotion. This recruiter could, over time, find his attitudes toward R&S becoming more positive. He might actually convince himself by continually articulating the merits of working for the company. Another alternative is that the recruiter could become openly negative about R&S and the opportunities within the company for prospective applicants. The original enthusiasm that the recruiter might have had would dwindle and might be replaced by outright cynicism toward the company. Finally, the recruiter might acknowledge that R&S is an undesirable place to work, but as a professional, realize that his obligation is to present the positive aspects of working for the company. He might further rationalize that no workplace is perfect and that his job is to present a favorable picture of the company, not to present both sides.

Cognitive Dissonance Theory

Can we assume from this consistency principle that an individual's behavior can always be predicted if we know his or her attitude on a subject? The answer isn't a simple "yes" or "no." Why? Cognitive dissonance theory.

Cognitive dissonance theory sought to explain the relationship between attitudes and behavior.[40] **Cognitive dissonance** is any incompatibility or inconsistency between attitudes or between behavior and attitudes. The theory argued that inconsistency is uncomfortable and that individuals will try to reduce the discomfort and thus, the dissonance.

Of course, no one can avoid dissonance. You know you should floss your teeth every day, but don't do it. There's an inconsistency between attitude and behavior. How do people cope with cognitive dissonance? The theory proposed that how hard we'll try to reduce dissonance is determined by three things: (1) the *importance* of the factors creating the dissonance, (2) the degree of *influence* the individual believes he or she has over those factors, and (3) the *rewards* that may be involved in dissonance.

If the factors creating the dissonance are relatively unimportant, the pressure to correct the inconsistency will be low. However, if those factors are important, individuals may change their behavior, conclude that the dissonant behavior isn't so important, change their attitude, or identify compatible factors that outweigh the dissonant ones.

How much influence individuals believe they have over the factors also affects their reaction to the dissonance. If they perceive the dissonance is something about which they have no choice, they're won't be receptive to attitude change or feel a need to do so. If, for example, the dissonance-producing behavior was required as a result of a manager's order, the pressure to reduce dissonance would be less than if the behavior had been performed voluntarily. Although dissonance exists, it can be rationalized and justified by the need to follow the manager's orders—that is, the person had no choice or control.

Finally, rewards also influence the degree to which individuals are motivated to reduce dissonance. Coupling high dissonance with high rewards tends to reduce the discomfort by motivating the individual to believe that there is consistency.

Attitude Surveys

Many organizations regularly survey their employees about their attitudes.[41] Exhibit 14-3 shows an example of an actual attitude survey. Typically, **attitude surveys** present the employee with a set of statements or questions eliciting how they feel about their jobs, work groups, supervisors, or the organization. Ideally, the items will be designed to obtain the specific information that managers desire. An attitude score is achieved by summing up responses to individual questionnaire items. These scores can then be averaged for work groups, departments, divisions, or the organization as a whole. For instance, the Tennessee Valley Authority, the largest U.S. government-run energy company, came up with a "Cultural Health Index" to measure employee attitudes. The organization found that business

Here are some sample statements from an employee attitude survey:

- I have ample opportunities to use my skills/abilities in my job.
- My manager has a good relationship with my work group.
- My organization provides me professional development opportunities.
- I am told if I'm doing good work or not.
- I feel safe in my work environment.
- My organization is a great place to work.

EXHIBIT 14-3
Sample Employee Attitude Survey

employee engagement
When employees are connected to, satisfied with, and enthusiastic about their jobs

cognitive dissonance
Any incompatibility or inconsistency between attitudes or between behavior and attitudes

attitude surveys
Surveys that elicit responses from employees through questions about how they feel about their jobs, work groups, supervisors, or the organization

As one of the top-ranked airlines for customer service, Singapore Airlines (SIA) has a stellar reputation in the fiercely competitive commercial aviation business.[46] The company's top leader, Chew Choon Seng, has created a culture in which employees excel at what they do and enjoy what they do. Passengers appreciate the outstanding customer service provided by the airline's satisfied frontline employees who have earned a reputation as friendly, upbeat, and responsive. In recruiting flight attendants, the company carefully selects people who are warm, hospitable, and happy to serve others. All employees—from bottom to top—are very proud to be part of the SIA family.

units that scored high on the attitude surveys also were the ones whose performance was high. For poorly performing business units, early signs of potential trouble had shown up in the attitude surveys.[42]

Regularly surveying employee attitudes provides managers with valuable feedback on how employees perceive their working conditions. Policies and practices that managers view as objective and fair may not be seen that way by employees. The use of regular attitude surveys can alert managers to potential problems and employees' intentions early so that action can be taken to prevent repercussions.[43]

Implications for Managers

Managers should be interested in their employees' attitudes because they influence behavior. Satisfied and committed employees, for instance, have lower rates of turnover and absenteeism. If managers want to keep resignations and absences down—especially among their more productive employees—they'll want to do things that generate positive job attitudes.

Satisfied employees also perform better on the job. So managers should focus on those factors that have been shown to be conducive to high levels of employee job satisfaction: making work challenging and interesting, providing equitable rewards, creating supportive working conditions, and encouraging supportive colleagues.[44] These factors are likely to help employees be more productive.

Managers should also survey employees about their attitudes. As one study put it, "A sound measurement of overall job attitude is one of the most useful pieces of information an organization can have about its employees."[45]

Finally, managers should know that employees will try to reduce dissonance. If employees are required to do things that appear inconsistent to them or that are at odds with their attitudes, managers should remember that pressure to reduce the dissonance is not as strong when the employee perceives that the dissonance is externally imposed and uncontrollable. It's also decreased if rewards are significant enough to offset the dissonance. So the manager might point to external forces such as competitors, customers, or other factors when explaining the need to perform some work that the individual may have some dissonance about. Or the manager can provide rewards that an individual desires.

LEARNING OUTCOME 14.3
Describe different personality theories.

Personality

"Let's face it, dating is a drag. There was a time when we thought the computer was going to make it all better. . . . But most of us learned the hard way that finding someone who shares our love of film noir and obscure garage bands does not a perfect match make."[47] Using in-depth personality assessment and profiling, Chemistry.com is trying to do something about making the whole dating process better.

Personality. We all have one. Some of us are quiet and passive; others are loud and aggressive. When we describe people using terms such as *quiet, passive, loud, aggressive, ambitious, extroverted, loyal, tense,* or *sociable*, we're describing their personalities. An individual's **personality** is a unique combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others. Personality is most often described in terms of measurable traits that a person exhibits. We're interested in looking at personality because just like attitudes, it too, affects how and why people behave the way they do.

Over the years, researchers have attempted to identify those traits that best describe personality. The two most well-known approaches are: the Myers Briggs Type Indicator® (MBTI) and the Big Five model.

MBTI®

One popular approach to classifying personality traits is the personality-assessment instrument known as the MBTI®. This 100-question assessment asks people how they usually act or feel in different situations.[48] On the basis of their answers, individuals are classified as exhibiting a preference in four categories: extraversion or introversion (E or I), sensing or intuition (S or N), thinking or feeling (T or F), and judging or perceiving (J or P). These terms are defined as follows:

- *Extraversion (E) versus Introversion (I).* Individuals showing a preference for extraversion are outgoing, social, and assertive. They need a work environment that's varied and action oriented, that lets them be with others, and that gives them a variety of experiences. Individuals showing a preference for introversion are quiet and shy. They focus on understanding and prefer a work environment that is quiet and concentrated, that lets them be alone, and that gives them a chance to explore in depth a limited set of experiences.
- *Sensing (S) versus Intuition (N).* Sensing types are practical and prefer routine and order. They dislike new problems unless there are standard ways to solve them, have a high need for closure, show patience with routine details, and tend to be good at precise work. On the other hand, intuition types rely on unconscious processes and look at the "big picture." They're individuals who like solving new problems, dislike doing the same thing over and over again, jump to conclusions, are impatient with routine details, and dislike taking time for precision.
- *Thinking (T) versus Feeling (F).* Thinking types use reason and logic to handle problems. They're unemotional and uninterested in people's feelings, like analysis and putting things into logical order, are able to reprimand people and fire them when necessary, may seem hard-hearted, and tend to relate well only to other thinking types. Feeling types rely on their personal values and emotions. They're aware of other people and their feelings, like harmony, need occasional praise, dislike telling people unpleasant things, tend to be sympathetic, and relate well to most people.
- *Judging (J) versus Perceiving (P).* Judging types want control and prefer their world to be ordered and structured. They're good planners, decisive, purposeful, and exacting. They focus on completing a task, make decisions quickly, and want only the information necessary to get a task done. Perceiving types are flexible and spontaneous. They're curious, adaptable, and tolerant. They focus on starting a task, postpone decisions, and want to find out all about the task before starting it.

Combining these preferences provides descriptions of 16 personality types, with every person identified with one of the items in each of the four pairs. Exhibit 14-4 summarizes two of them. As you can see from these descriptions, each personality type would approach work and relationships differently—neither one better than the other, just different.

More than 2 million people a year take the MBTI® in the United States alone. Some organizations that have used the MBTI® include Apple, AT&T, GE, 3M, hospitals, educational

Type	Description
I–S–F–P (introversion, sensing, feeling, perceiving)	Sensitive, kind, modest, shy, and quietly friendly. Such people strongly dislike disagreements and will avoid them. They are loyal followers and quite often are relaxed about getting things done.
E–N–T–J (extraversion, intuition, thinking, judging)	Warm, friendly, candid, and decisive; also skilled in anything that requires reasoning and intelligent talk, but may sometimes overestimate what they are capable of doing.

EXHIBIT 14-4

Examples of MBTI® Personality Types

Source: Based on I. Briggs-Myers, *Introduction to Type* (Palo Alto, CA: Consulting Psychologists Press, 1980), pp. 7–8.

personality
The unique combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others

institutions, and even the U.S. Armed Forces. No hard evidence shows that the MBTI® is a valid measure of personality, but that doesn't seem to deter its widespread use.

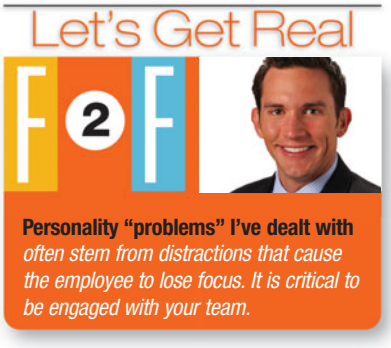
How could the MBTI® help managers? Proponents believe that it's important to know these personality types because they influence the way people interact and solve problems. For instance, if your boss is an intuition type and you're a sensing type, you'll gather information in different ways. An intuitive type prefers gut reactions, whereas a sensor prefers facts. To work well with your boss, you would have to present more than just facts about a situation and bring out how you feel about it. Also, the MBTI® has been used to help managers better match employees to certain types of jobs.

The Big Five Model

In recent years, research has shown that five basic personality dimensions underlie all others and encompass most of the significant variation in human personality.[49] The five personality traits in the **Big Five Model** are:

1. *Extraversion:* The degree to which someone is sociable, talkative, assertive, and comfortable in relationships with others.
2. *Agreeableness:* The degree to which someone is good-natured, cooperative, and trusting.
3. *Conscientiousness:* The degree to which someone is reliable, responsible, dependable, persistent, and achievement oriented.
4. *Emotional stability:* The degree to which someone is calm, enthusiastic, and secure (positive) or tense, nervous, depressed, and insecure (negative).
5. *Openness to experience:* The degree to which someone has a wide range of interests and is imaginative, fascinated with novelty, artistically sensitive, and intellectual.

The Big Five Model provides more than just a personality framework. Research has shown that important relationships exist between these personality dimensions and job performance. For example, one study examined five categories of occupations: *professionals* (such as engineers, architects, and attorneys), *police, managers, salespeople,* and *semiskilled and skilled employees*.[50] The results showed that conscientiousness predicted job performance for all five occupational groups. Predictions for the other personality dimensions depended on the situation and on the occupational group. For example, extraversion predicted performance in managerial and sales positions—occupations in which high social interaction is necessary. Openness to experience was found to be important in predicting training competency. Ironically, emotional security wasn't positively related to job performance in any of the occupations. Another study that looked at whether the five-factor model could predict managerial performance found that it could if 360 degree performance ratings (that is, performance ratings from supervisors, peers, and subordinates) were used.[51] Other studies have shown that employees who score higher in conscientiousness develop higher levels of job knowledge, probably because highly conscientious people learn more. In fact, a review of 138 studies revealed that conscientiousness was rather strongly related to GPA.[52]



Additional Personality Insights

Although the traits in the Big Five are highly relevant to understanding behavior, they aren't the only personality traits that can describe someone's personality. Five other personality traits are powerful predictors of behavior in organizations.

1. *Locus of Control.* Some people believe that they control their own fate. Others see themselves as pawns, believing that what happens to them in their lives is due to luck or chance. The **locus of control** in the first case is *internal*; these people believe that they control their own destiny. The locus of control in the second case is *external*; these people believe that their lives are controlled by outside forces.[53] Research indicates that employees who are externals are less satisfied with their jobs, more alienated from the work setting, and less involved in their jobs than are those who rate high on internality.[54] A manager might also expect externals to blame a poor performance evaluation on their boss's prejudice, their coworkers, or other events outside their control; internals would explain the same evaluation in terms of their own actions.

2. *Machiavellianism.* The second characteristic is called **Machiavellianism** (Mach), named after Niccolo Machiavelli, who wrote in the sixteenth century on how to gain and manipulate power. An individual who is high in Machiavellianism is pragmatic, maintains emotional distance, and believes that ends can justify means.[55] "If it works, use it" is consistent with a high Mach perspective. Do high Machs make good employees? That depends on the type of job and whether you consider ethical factors in evaluating performance. In jobs that require bargaining skills (such as a purchasing manager) or that have substantial rewards for excelling (such as a salesperson working on commission), high Machs are productive.
3. *Self-Esteem.* People differ in the degree to which they like or dislike themselves, a trait called **self-esteem**.[56] Research on self-esteem (SE) offers some interesting behavioral insights. For example, self-esteem is directly related to expectations for success. High SEs believe that they possess the ability they need in order to succeed at work. Individuals with high SEs will take more risks in job selection and are more likely to choose unconventional jobs than are people with low SEs.

   The most common finding on self-esteem is that low SEs are more susceptible to external influence than are high SEs. Low SEs are dependent on receiving positive evaluations from others. As a result, they're more likely to seek approval from others and are more prone to conform to the beliefs and behaviors of those they respect than are high SEs. In managerial positions, low SEs will tend to be concerned with pleasing others and, therefore, will be less likely to take unpopular stands than are high SEs. Finally, self-esteem has also been found to be related to job satisfaction. A number of studies confirm that high SEs are more satisfied with their jobs than are low SEs.
4. *Self-Monitoring.* Have you ever had the experience of meeting someone new and feeling a natural connection and hitting it off right away? At some time or another, we've all had that experience. That natural ability to "click" with other people may play a significant role in determining career success[57] and is another personality trait called **self-monitoring**, which refers to the ability to adjust behavior to external, situational factors.[58] Individuals high in self-monitoring show considerable adaptability in adjusting their behavior. They're highly sensitive to external cues and can behave differently in different situations. High self-monitors are capable of presenting striking contradictions between their public persona and their private selves. Low self-monitors can't adjust their behavior. They tend to display their true dispositions and attitudes in every situation, and there's high behavioral consistency between who they are and what they do.

   Research on self-monitoring suggests that high self-monitors pay closer attention to the behavior of others and are more flexible than are low self-monitors.[59] In addition, high self-monitoring managers tend to be more mobile in their careers, receive more promotions (both internal and cross-organizational), and are more likely to occupy central positions in an organization.[60] The high self-monitor is capable of putting on different "faces" for different audiences, an important trait for managers who must play multiple, or even contradicting roles.
5. *Risk-Taking.* People differ in their willingness to take chances. Differences in the propensity to assume or to avoid risk have been shown to affect how long it takes managers to make a decision and how much information they require before making their choice. For instance, in one study where managers worked on simulated exercises that required them to make hiring decisions, high risk-taking managers took less time to make decisions and used less information in making their choices than did low-risk taking managers.[61] Interestingly, the decision accuracy was the same for the two groups. To maximize organizational effectiveness, managers should try to align employee risk-taking propensity with specific job demands.

by the numbers[62]

99 percent of people polled say they have been bullied or have witnessed bullying at work.

80 percent of employees attribute their ability to stay motivated and focused on a positive attitude.

15 percent of Millennials say that having a high-paying career is a top priority.

44 percent of Gen Y rank job security as more important than personal job satisfaction.

51 percent of employees say they did nothing when a coworker took credit for an idea that was theirs.

70 percent of executives surveyed say they are satisfied with their job.

24 percent of workers say that what makes them happy is just having a job.

Big Five Model
Personality trait model that includes extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience

locus of control
The degree to which people believe they are masters of their own fate

Machiavellianism
A measure of the degree to which people are pragmatic, maintain emotional distance, and believe that ends justify means

self-esteem
An individual's degree of like or dislike for himself or herself

self-monitoring
A personality trait that measures the ability to adjust behavior to external situational factors

OTHER PERSONALITY TRAITS. A couple of other personality traits deserve mention. In Chapter 6, we introduced the Type A personality, which describes someone who is continually and aggressively struggling to achieve more and more in less and less time.[63] In the North American culture, the Type A personality is highly valued. Type A individuals subject themselves to continual time pressure and deadlines and have moderate to high levels of stress. They emphasize quantity over quality. On the other hand, a Type B person isn't harried by the desire to achieve more and more. Type Bs don't suffer from a sense of time urgency and are able to relax without guilt.

Another interesting trait that's been studied extensively is the **proactive personality**, which describes people who identify opportunities, show initiative, take action, and persevere until meaningful change occurs. Not surprisingly, research has shown that proactives have many desirable behaviors that organizations want.[64] For instance, they are more likely to be seen as leaders and more likely to act as change agents in organizations; they're more likely to challenge the status quo; they have entrepreneurial abilities; and they're more likely to achieve career success.

Finally, the economic recession has prompted a reexamination of **resilience**, which is an individual's ability to overcome challenges and turn them into opportunities.[65] A recent study by a global consulting firm showed that it is a key factor in keeping a job: A resilient person is likely to be more adaptable, flexible, and goal-focused. OB researchers also have looked at resilience and other individual characteristics including efficacy, hope, and optimism in a concept called positive psychological capital.[66] These characteristics have been found to be related to higher feelings of well-being and less work stress, which ultimately affect how and why people behave the way they do at work.

Personality Types in Different Cultures

Do personality frameworks, like the Big Five model, transfer across cultures? Are dimensions like locus of control relevant in all cultures? Let's try to answer these questions.

The five personality factors studied in the Big Five model appear in almost all cross-cultural studies.[67] These studies include a wide variety of diverse cultures such as China, Israel, Germany, Japan, Spain, Nigeria, Norway, Pakistan, and the United States. Differences are found in the emphasis on dimensions. Chinese, for example, use the category of conscientiousness more often and use the category of agreeableness less often than do Americans. But a surprisingly high amount of agreement is found, especially among individuals from developed countries. As a case in point, a comprehensive review of studies covering people from the European Community found that conscientiousness was a valid predictor of performance across jobs and occupational groups.[68] Studies in the United States found the same thing.

We know that no personality type is common for a given country. You can, for instance, find high risk takers and low risk takers in almost any culture. Yet a country's culture influences the *dominant* personality characteristics of its people. We can see this effect of national culture by looking at one of the personality traits we just discussed: locus of control.

National cultures differ in terms of the degree to which people believe they control their environment. For instance, North Americans believe that they can dominate their environment; other societies, such as those in Middle Eastern countries, believe that life is essentially predetermined. Notice how closely this distinction parallels the concept of internal and external locus of control. On the basis of this particular cultural characteristic, we should expect a larger proportion of internals in the U.S. and Canadian workforces than in the workforces of Saudi Arabia or Iran.

As we have seen throughout this section, personality traits influence employees' behavior. For global managers, understanding how personality traits differ takes on added significance when looking at it from the perspective of national culture.

Emotions and Emotional Intelligence

"Trying to sell wedding gowns to anxious brides-to-be" can be quite a stressful experience for the salesperson, needless to say. To help its employees stay "cheery," David's Bridal, a chain of more than 270 stores, relied on research into joyful emotions. Now, when "faced with an indecisive bride," salespeople have been taught emotional coping techniques and know how to focus on "things that bring them joy."[69]

We can't leave the topic of personality without looking at the important behavioral aspect of emotions. How we respond emotionally and how we deal with our emotions are typically functions of our personality. **Emotions** are intense feelings that are directed at someone or something. They're object-specific; that is, emotions are reactions to an object.[70] For instance, when a work colleague criticizes you for the way you spoke to a client, you might become angry at him. That is, you show emotion (anger) toward a specific object (your colleague). Because employees bring an emotional component with them to work every day, managers need to understand the role that emotions play in employee behavior.[71]

How many emotions are there? Although you could probably name several dozen, research has identified six universal emotions: anger, fear, sadness, happiness, disgust, and surprise.[72] Do these emotions surface in the workplace? Absolutely! I get *angry* after receiving a poor performance appraisal. I *fear* that I could be laid off as a result of a company cutback. I'm *sad* about one of my coworkers leaving to take a new job in another city. I'm *happy* after being selected as employee-of-the-month. I'm *disgusted* with the way my supervisor treats women on our team. And I'm *surprised* to find out that management plans a complete restructuring of the company's retirement program.

People respond differently to identical emotion-provoking stimuli. In some cases, differences can be attributed to a person's personality and because people vary in their ability to express emotions. For instance, you undoubtedly know people who almost never show their feelings. They rarely get angry or show rage. In contrast, you probably also know people who seem to be on an emotional roller coaster. When they're happy, they're ecstatic. When they're sad, they're deeply depressed. And two people can be in the exact same situation—one showing excitement and joy, the other remaining calm.

However, at other times how people respond emotionally is a result of job requirements. Jobs make different demands in terms of what types and how much emotion needs to be displayed. For instance, air traffic controllers, ER nurses, and trial judges are expected to be calm and controlled, even in stressful situations. On the other hand, public-address announcers at sporting events and lawyers in a courtroom must be able to alter their emotional intensity as the need arises.

FUTURE VISION

The Working World in 2020

Increased Reliance on Emotional Intelligence

Whether it goes by the name of emotional intelligence, social intelligence, or something else, the ability to understand yourself and others will be a skill that organizations will seek when hiring employees. The ability to get along with others—coworkers, colleagues, team members, bosses, and customers—will be critical to success in most jobs. While more employees are likely to work from off-site, there will still be ongoing contact with others. Those employees who have strong technical skills but are weak on emotional intelligence will find it increasingly difficult to find and hold a job.

proactive personality
People who identify opportunities, show initiative, take action, and persevere until meaningful change occurs.

resilience
An individual's ability to overcome challenges and turn them into opportunities

emotions
Intense feelings that are directed at someone or something

One area of emotions research with interesting insights into personality is **emotional intelligence (EI)**, which is the ability to notice and to manage emotional cues and information.[73] It's composed of five dimensions:

Self-awareness: The ability to be aware of what you're feeling.
Self-management: The ability to manage one's own emotions and impulses.
Self-motivation: The ability to persist in the face of setbacks and failures.
Empathy: The ability to sense how others are feeling.
Social skills: The ability to handle the emotions of others.

EI has been shown to be positively related to job performance at all levels. For instance, one study looked at the characteristics of Lucent Technologies' engineers who were rated as stars by their peers. The researchers concluded that stars were better at relating to others. That is, it was EI, not academic intelligence that characterized high performers. A study of Air Force recruiters generated similar findings. Top-performing recruiters exhibited high levels of EI. Despite these findings, EI has been a controversial topic in OB. Supporters say that EI has intuitive appeal and predicts important behavior.[74] Critics say that EI is vague, can't be measured, and has questionable validity.[75] One thing we can conclude is that EI appears to be relevant to success in jobs that demand a high degree of social interaction.

Implications for Managers

More than 62 percent of companies are using personality tests when recruiting and hiring.[76] Perhaps the major value in understanding personality differences lies in this area. Managers are likely to have higher-performing and more-satisfied employees if consideration is given to matching personalities with jobs. The best-documented personality-job fit theory was developed by psychologist John Holland who identified six basic personality types.[77] His theory states that an employee's satisfaction with his or her job, as well as his or her likelihood of leaving that job, depends on the degree to which the individual's personality matches the job environment. Exhibit 14-5 describes the six types, their personality characteristics, and examples of suitable occupations for each.

Holland's theory proposes that satisfaction is highest and turnover lowest when personality and occupation are compatible. Social individuals should be in "people" type jobs, and so forth. The key points of this theory are that (1) intrinsic differences in personality are apparent among individuals; (2) the types of jobs vary; and (3) people in job environments compatible with their personality types should be more satisfied and less likely to resign voluntarily than should people in incongruent jobs.

In addition, other benefits arise from understanding personality. By recognizing that people approach problem solving, decision making, and job interactions differently, a

EXHIBIT 14-5

Holland's Personality–Job Fit

Source: Based on J. L. Holland, *Making Vocational Choices: A Theory of Vocational Personalities and Work Environments* (Odessa, FL: Psychological Assessment Resources, 1997).

Type	Personality Characteristics	Sample Occupations
Realistic. Prefers physical activities that require skill, strength, and coordination.	Shy, genuine, persistent, stable, conforming, practical	Mechanic, drill press operator, assembly-line worker, farmer
Investigative. Prefers activities involving thinking, organizing, and understanding.	Analytical, original, curious, independent	Biologist, economist, mathematician, news reporter
Social. Prefers activities that involve helping and developing others.	Sociable, friendly, cooperative, understanding	Social worker, teacher, counselor, clinical psychologist
Conventional. Prefers rule-regulated, orderly, and unambiguous activities.	Conforming, efficient, practical, unimaginative, inflexible	Accountant, corporate manager, bank teller, file clerk
Enterprising. Prefers verbal activities that offer opportunities to influence others and attain power.	Self-confident, ambitious, energetic, domineering	Lawyer, real estate agent, public relations specialist, small business manager
Artistic. Prefers ambiguous and unsystematic activities that allow creative expression.	Imaginative, disorderly, idealistic, emotional, impractical	Painter, musician, writer, interior decorator

manager can better understand why an employee is uncomfortable with making quick decisions or why another employee insists on gathering as much information as possible before addressing a problem. Or, for instance, managers can expect that individuals with an external locus of control may be less satisfied with their jobs than internals and also that they may be less willing to accept responsibility for their actions.

Finally, being a successful manager and accomplishing goals means working well together with others both inside and outside the organization. In order to work effectively together, you need to understand each other. This understanding comes, at least in part, from an appreciation of personality traits and emotions. Also, one of the skills you have to develop as a manager is learning to fine-tune your emotional reactions according to the situation. In other words, you have to learn to recognize when "you have to smile and when you have to bark."[78]

Perception

14.4 LEARNING OUTCOME
Describe perception and factors that influence it.

"Jin knows better than most that your success as a rapper depends almost entirely on your delivery—even when people expect that delivery to be lemon chicken with a side of rice."[79] Most people think Asian Americans are studious geeks and that people who "look" Asian must be foreigners and not U.S. citizens. Although Chinese-American rapper Jin may not fit the stereotype, he has found success as an American rap musician.

Stereotyping is one aspect of **perception**, which is a process by which we give meaning to our environment by organizing and interpreting sensory impressions. Research on perception consistently demonstrates that individuals may look at the same thing yet perceive it differently. One manager, for instance, can interpret the fact that her assistant regularly takes several days to make important decisions as evidence that the assistant is slow, disorganized, and afraid to make decisions. Another manager with the same assistant might interpret the same tendency as evidence that the assistant is thoughtful, thorough, and deliberate. The first manager would probably evaluate her assistant negatively; the second manager would probably evaluate the person positively. The point is that none of us sees reality. We interpret what we see and call it reality. And, of course, as the example shows, we behave according to our perceptions.

Factors That Influence Perception

How do we explain the fact that people can perceive the same thing differently? A number of factors act to shape and sometimes distort perception. These factors are in the *perceiver*, in the *target* being perceived, or in the *situation* in which the perception occurs.

When a person looks at a target and attempts to interpret what he or she sees, the individual's personal characteristics will heavily influence the interpretation. These personal characteristics include attitudes, personality, motives, interests, experiences, or expectations.

The characteristics of the target being observed can also affect what's perceived. Loud people are more likely than quiet people to be noticed in a group as are extremely attractive or unattractive individuals. The relationship of a target to its background also influences perception, as does our tendency to group close things and similar things together. You can experience these tendencies by looking at the visual perception examples shown in Exhibit 14-6. Notice how what you see changes as you look differently at each one.

Finally, the context in which we see objects or events is also important. The time at which an object or event is seen can influence perception, as can location, light, heat, color, and any number of other situational factors.

emotional intelligence (EI)
The ability to notice and to manage emotional cues and information

perception
A process by which we give meaning to our environment by organizing and interpreting sensory impressions

EXHIBIT 14-6
What do you see?

Old woman or young woman? A knight on a horse?

Attribution Theory

Much of the research on perception is directed at inanimate objects. Managers, however, are concerned with people. Our perceptions of people differ from our perception of inanimate objects because we make inferences about the behaviors of people that we don't make about objects. Objects don't have beliefs, motives, or intentions; people do. The result is that when we observe an individual's behavior, we try to develop explanations of why they behave in certain ways. Our perception and judgment of a person's actions are significantly influenced by the assumptions we make about the person.

Attribution theory was developed to explain how we judge people differently depending on what meaning we attribute to a given behavior.[80] Basically, the theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. Internally caused behaviors are those that are believed to be under the personal control of the individual. Externally caused behavior results from outside factors; that is, the person is forced into the behavior by the situation. That determination, however, depends on three factors: distinctiveness, consensus, and consistency.

Distinctiveness refers to whether an individual displays different behaviors in different situations. Is the employee who arrived late today the same person who some employees complain of as being a "goof-off"? What we want to know is whether this behavior is unusual. If it's unusual, the observer is likely to attribute the behavior to external forces, something beyond the control of the person. However, if the behavior isn't unusual, it will probably be judged as internal.

If everyone who's faced with a similar situation responds in the same way, we can say the behavior shows *consensus*. A tardy employee's behavior would meet this criterion if all employees who took the same route to work were also late. From an attribution perspective, if consensus is high, you're likely to give an external attribution to the employee's tardiness; that is, some outside factor—maybe road construction or a traffic accident—caused the behavior. However, if other employees who come the same way to work made it on time, you would conclude that the cause of the late behavior was internal.

Finally, an observer looks for *consistency* in a person's actions. Does the person engage in the behaviors regularly and consistently? Does the person respond the same way over time? Coming in 10 minutes late for work isn't perceived in the same way if, for one employee, it represents an unusual case (she hasn't been late in months), while for another employee, it's part of a routine pattern (she's late two or three times every week). The more consistent the behavior, the more the observer is inclined to attribute it to internal causes. Exhibit 14-7 summarizes the key elements of attribution theory.

One interesting finding from attribution theory is that errors or biases distort our attributions. For instance, substantial evidence supports the fact that when we make judgments about the behavior of other people, we have a tendency to *under*estimate the influence of external factors and to *over*estimate the influence of internal or personal factors.[81] This

Observation	Interpretation	Attribution of Cause
Does person behave this way in other situations?	Yes: Low distinctiveness No: High distinctiveness	Internal attribution External attribution
Do other people behave the same way in similar situations?	Yes: High consensus No: Low consensus	External attribution Internal attribution
Does person behave this way consistently?	Yes: High consistency No: Low consistency	Internal attribution External attribution

EXHIBIT 14-7
Attribution Theory

tendency is called the **fundamental attribution error** and can explain why a sales manager may attribute the poor performance of her sales representative to laziness rather than to the innovative product line introduced by a competitor. Another tendency is to attribute our own successes to internal factors, such as ability or effort, while putting the blame for personal failure on external factors, such as luck. This tendency is called the **self-serving bias** and suggests that feedback provided to employees in performance reviews will be distorted by them depending on whether it's positive or negative.

Are these errors or biases that distort attributions universal across different cultures? We can't say for sure, but preliminary evidence indicates cultural differences.[82] For instance, a study of Korean managers found that, contrary to the self-serving bias, they tended to accept responsibility for group failure "because I was not a capable leader" instead of attributing it to group members.[83] Attribution theory was developed largely based on experiments with Americans and Western Europeans. But the Korean study suggests caution in making attribution theory predictions in non-Western societies, especially in countries with strong collectivist traditions.

Shortcuts Used in Judging Others

Perceiving and interpreting people's behavior is a lot of work, so we use shortcuts to make the task more manageable. These techniques can be valuable when they let us make accurate interpretations quickly and provide valid data for making predictions. However, they aren't perfect. They can and do get us into trouble.

It's easy to judge others if we assume that they're similar to us. In **assumed similarity**, or the "like me" effect, the observer's perception of others is influenced more by the observer's own characteristics than by those of the person observed. For example, if you want challenges and responsibility in your job, you'll assume that others want the same. People who assume that others are like them can, of course, be right, but not always.

When we judge someone on the basis of our perception of a group he or she is part of, we're using the shortcut called **stereotyping**. For instance, "Married people are more stable employees than single persons" is an example of stereotyping. To the degree that a stereotype is based on fact, it may produce accurate judgments. However, many stereotypes aren't factual and distort our judgment.[84]

When we form a general impression about a person on the basis of a single characteristic, such as intelligence, sociability, or appearance, we're being influenced by the **halo effect**. This effect frequently occurs when students evaluate their classroom instructor. Students may

attribution theory
A theory used to explain how we judge people differently depending on what meaning we attribute to a given behavior

fundamental attribution error
The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behavior of others

self-serving bias
The tendency for individuals to attribute their own successes to internal factors while putting the blame for failures on external factors

assumed similarity
The assumption that others are like oneself

stereotyping
Judging a person on the basis of one's perception of a group to which he or she belongs

halo effect
A general impression of an individual based on a single characteristic

isolate a single trait such as enthusiasm and allow their entire evaluation to be slanted by the perception of this one trait. An instructor may be quiet, assured, knowledgeable, and highly qualified, but if his classroom teaching style lacks enthusiasm, he might be rated lower on a number of other characteristics.

Implications for Managers

Managers need to recognize that their employees react to perceptions, not to reality. So whether a manager's appraisal of an employee's performance is actually objective and unbiased or whether the organization's wage levels are among the highest in the community is less relevant than what employees perceive them to be. If individuals perceive appraisals to be biased or wage levels as low, they'll behave as if those conditions actually exist. Employees organize and interpret what they see, so the potential for perceptual distortion is always present. The message is clear: Pay close attention to how employees perceive both their jobs and management actions.

LEARNING OUTCOME 14.5
Discuss learning theories and their relevance in shaping behavior.

Learning

When 20-year-old Elvis Andrus was signed by the Texas Rangers in 2009, he was excited to find out that the Rangers had signed another shortstop—11-time Gold Glove winner and fellow Venezuelan Omar Vizquel. Vizquel's role was clear: to be a mentor to the talented young player. Managers of major league baseball teams "regularly mix savvy veterans with talented young players, hoping tricks of the trade and advice on everything from how to turn a double play to how to avoid trouble in night spots on the road will rub off."[85]

Mentoring is a good example of the last individual behavior concept we're going to look at—learning. Learning is included in our discussion of individual behavior for the obvious reason that almost all behavior is learned. If we want to explain, predict, and influence behavior, we need to understand how people learn.

The psychologists' definition of learning is considerably broader than the average person's view that "it's what we do in school." Learning occurs all the time as we continuously learn from our experiences. A workable definition of **learning** is any relatively permanent change in behavior that occurs as a result of experience. Two learning theories help us understand how and why individual behavior occurs.

Operant Conditioning

Operant conditioning argues that behavior is a function of its consequences. People learn to behave to get something they want or to avoid something they don't want. Operant behavior is voluntary or learned behavior, not reflexive or unlearned behavior. The tendency to repeat learned behavior is influenced by reinforcement or lack of reinforcement that happens as a result of the behavior. Reinforcement strengthens a behavior and increases the likelihood that it will be repeated. Lack of reinforcement weakens a behavior and lessens the likelihood that it will be repeated.

B. F. Skinner's research widely expanded our knowledge of operant conditioning.[86] Behavior is assumed to be determined from without—that is, *learned*—rather than from within—reflexive or unlearned. Skinner argued that people will most likely engage in desired behaviors if they are positively reinforced for doing so, and rewards are most effective if they immediately follow the desired response. In addition, behavior that isn't rewarded or is punished is less likely to be repeated.

You see examples of operant conditioning everywhere. Any situation in which it's either explicitly stated or implicitly suggested that reinforcement (rewards) are contingent on some action on your part is an example of operant conditioning. Your instructor says that if you want a high grade in this course, you must perform well on tests by giving correct answers. A salesperson working on commission knows that earning a sizeable income is contingent upon generating high sales in his or her territory. Of course, the linkage between behavior and reinforcement can also work to teach the individual to behave in ways that work against

the best interests of the organization. Assume that your boss tells you that if you'll work overtime during the next three-week busy season, you'll be compensated for it at the next performance appraisal. Then, when performance appraisal time comes, you are given no positive reinforcements (such as being praised for pitching in and helping out when needed). What will you do the next time your boss asks you to work overtime? You'll probably refuse. Your behavior can be explained by operant conditioning: If a behavior isn't positively reinforced, the probability that the behavior will be repeated declines.

Social Learning

Some 60 percent of the Radio City Rockettes have danced in prior seasons. The veterans help newcomers with "Rockette style"—where to place their hands, how to hold their hands, how to keep up stamina, and so forth.[87]

As the Rockettes are well aware, individuals can also learn by observing what happens to other people and just by being told about something as well as by direct experiences. Much of what we have learned comes from watching others (models)—parents, teachers, peers, television and movie actors, managers, and so forth. This view that we can learn both through observation and direct experience is called **social learning theory**.

The influence of others is central to the social learning viewpoint. The amount of influence that these models have on an individual is determined by four processes:

1. *Attentional processes.* People learn from a model when they recognize and pay attention to its critical features. We're most influenced by models who are attractive, repeatedly available, thought to be important, or seen as similar to us.
2. *Retention processes.* A model's influence will depend on how well the individual remembers the model's action, even after the model is no longer readily available.
3. *Motor reproduction processes*. After a person has seen a new behavior by observing the model, the watching must become doing. This process then demonstrates that the individual can actually do the modeled activities.
4. *Reinforcement processes*. Individuals will be motivated to exhibit the modeled behavior if positive incentives or rewards are provided. Behaviors that are reinforced will be given more attention, learned better, and performed more often.

Shaping: A Managerial Tool

Because learning takes place on the job as well as prior to it, managers are concerned with how they can teach employees to behave in ways that most benefit the organization. Thus, managers will often attempt to "mold" individuals by guiding their learning in graduated steps, through a method called **shaping behavior**.

Consider the situation in which an employee's behavior is significantly different from that sought by a manager. If the manager reinforced the individual only when he or she showed desirable responses, the opportunity for reinforcement might occur too infrequently. Shaping offers a logical approach toward achieving the desired behavior. We shape behavior by systematically reinforcing each successive step that moves the individual closer to the desired behavior. If an employee who has chronically been a half-hour late for work comes in only 20 minutes late, we can reinforce the improvement. Reinforcement would increase as an employee gets closer to the desired behavior.

Four ways to shape behavior include positive reinforcement, negative reinforcement, punishment, and extinction. When a behavior is followed by something pleasant, such as praising an employee for a job well done, it's called *positive reinforcement*. Positive reinforcement

learning
Any relatively permanent change in behavior that occurs as a result of experience

operant conditioning
A theory of learning that says behavior is a function of its consequences

social learning theory
A theory of learning that says people can learn through observation and direct experience

shaping behavior
The process of guiding learning in graduated steps using reinforcement or lack of reinforcement

increases the likelihood that the desired behavior will be repeated. Rewarding a response by eliminating or withdrawing something unpleasant is *negative reinforcement*. A manager who says "I won't dock your pay if you start getting to work on time" is using negative reinforcement. The desired behavior (getting to work on time) is being encouraged by the withdrawal of something unpleasant (the employee's pay being docked). On the other hand, *punishment* penalizes undesirable behavior and will eliminate it. Suspending an employee for two days without pay for habitually coming to work late is an example of punishment. Finally, eliminating any reinforcement that's maintaining a behavior is called *extinction*. When a behavior isn't reinforced, it gradually disappears. In meetings, managers who wish to discourage employees from continually asking irrelevant or distracting questions can eliminate this behavior by ignoring those employees when they raise their hands to speak. Soon this behavior should disappear.

Both positive and negative reinforcement result in learning. They strengthen a desired behavior and increase the probability that the desired behavior will be repeated. Both punishment and extinction also result in learning but do so by weakening an undesired behavior and decreasing its frequency.

Implications for Managers

Employees are going to learn on the job. The only issue is whether managers are going to manage their learning through the rewards they allocate and the examples they set, or allow it to occur haphazardly. If marginal employees are rewarded with pay raises and promotions, they will have little reason to change their behavior. In fact, productive employees, who see marginal performance rewarded, might change their behavior. If managers want behavior A, but reward behavior B, they shouldn't be surprised to find employees' learning to engage in behavior B. Similarly, managers should expect that employees will look to them as models. Managers who are consistently late to work, or take two hours for lunch, or help themselves to company office supplies for personal use should expect employees to read the message they are sending and model their behavior accordingly.

LEARNING OUTCOME 14.6
Discuss contemporary issues in organizational behavior.

Contemporary Issues in Organizational Behavior

By this point, you're probably well aware of the reasons managers need to understand how and why employees behave the way they do. We conclude this chapter by looking at two OB issues with a major influence on managers' jobs today.

Managing Generational Differences

Every year since 1998, Beloit College in Wisconsin has assembled a Mindset List that helps identify the experiences that have shaped the lives of incoming freshmen.[88] The authors of the list state that it is an effort to better understand the "experiences that have shaped the lives and formed the mindset of students." Here are some of the observations from the 2014 list (generated in 2010):

- Few in the class know how to write in cursive.
- E-mail is just too slow, and they seldom, if ever, use snail mail.
- Al Gore has always been animated.
- Colorful lapel ribbons have always been worn to indicate support for a cause.
- Korean cars have always been a staple on American highways.
- Computers have always had a CD-ROM disk drive.

What will *this* group of young employees be like when they enter the workforce after graduation? Will they share the characteristics of the earlier members of Gen Y? Let's take a look at how Gen Y is changing the workplace.

By observing Generation Y employees at work, Alicia Blain, vice president of information systems for Visa International, learned a lot from young workers like Julio Delgado, shown here with Blain. Recognizing what motivates Gen Y employees, such as flexibility and work–life balance, and valuing the contributions they bring to the multigenerational workplace help managers capitalize on the talents of this group. Of special value is Gen Y's knowledge and application of computer technology in solving problems, detecting emerging trends, and locating relevant and difficult-to-find information quickly.

They're young, smart, and brash. They wear flip-flops to the office and listen to iPods at their desk. They want to work, but don't want work to be their life. This is Generation Y, some 70 million of them, many of whom are embarking on their careers, taking their place in an increasingly multigenerational workplace.[89]

JUST WHO IS GEN Y? There's no consensus about the exact time span that Gen Y comprises, but most definitions include those individuals born from about 1982 to 1997. One thing is for sure—they're bringing new attitudes with them to the workplace. Gen Ys have grown up with an amazing array of experiences and opportunities. And they want their work life to provide that as well, as shown in Exhibit 14-8. For instance, Stella Kenyi, who

Gen Y Workers

High Expectations of Self
They aim to work faster and better than other workers.

High Expectations of Employers
They want fair and direct managers who are highly engaged in their professional development.

Ongoing Learning
They seek out creative challenges and view colleagues as vast resources from whom to gain knowledge.

Immediate Responsibility
They want to make an important impact on Day 1.

Goal Oriented
They want small goals with tight deadlines so they can build up ownership of tasks.

EXHIBIT 14-8

Gen Y Workers

Source: Bruce Tulgan (New Haven, CT) is the author or coauthor of numerous books, including *Not Everyone Gets a Trophy: How to Manage Generation Y* (2009) and the classic *Managing Generation X* (1995). Since founding the management training firm RainmakerThinking in 1993, he has been a sought-after keynote speaker and seminar leader. Tulgan's weekly video newsletter is available for free at www.rainmakerthinking.com.

is passionately interested in international development, was sent by her employer, the National Rural Electric Cooperative Association, to Yai, Sudan, to survey energy use.[90] At Best Buy's corporate offices Beth Trippie, a senior scheduling specialist, feels that as long as the results are there, why should it matter how it gets done. She says, "I'm constantly playing video games, on a call, doing work, and the thing is, all of it gets done, and it gets done well."[91] And Katie Patterson, an assistant account executive in Atlanta, says, "We are willing and not afraid to challenge the status quo. An environment where creativity and independent thinking are looked upon as a positive is appealing to people my age. We're very independent and tech savvy."[92]

DEALING WITH THE MANAGERIAL CHALLENGES. Managing Gen Y workers presents some unique challenges. Conflicts and resentment can arise over issues such as appearance, technology, and management style.

How flexible must an organization be in terms of "appropriate" office attire? It may depend on the type of work being done and the size of the organization. In many organizations, jeans, t-shirts, and flip-flops are acceptable. However, in other settings, employees are expected to dress more conventionally. But even in those more conservative organizations, one possible solution to accommodate the more casual attire preferred by Gen Y is to be more flexible in what's acceptable. For instance, the guideline might be that when the person is not interacting with someone outside the organizations, more casual wear (with some restrictions) can be worn.

What about technology? This generation has lived much of their lives with ATMs, DVDs, cell phones, e-mail, texting, laptops, and the Internet. When they don't have information they need, they just simply enter a few keystrokes to get it. Having grown up with technology, Gen Ys tend to be totally comfortable with it. They're quite content to meet virtually to solve problems, while bewildered baby boomers expect important problems to be solved with an in-person meeting. Baby boomers complain about Gen Y's inability to focus on one task, while Gen Ys see nothing wrong with multitasking. Again, flexibility from both is the key.

Finally, what about managing Gen Ys? Like the old car advertisement that used to say, "This isn't your father's car," we can say that "this isn't your father's or mother's way of managing." Gen Y employees want bosses who are open minded; experts in their field, even if they aren't tech-savvy; organized; teachers, trainers, and mentors; not authoritarian or paternalistic; respectful of their generation; understanding of their need for work–life balance; providing constant feedback; communicating in vivid and compelling ways; and providing stimulating and novel learning experiences.[93]

Gen Y employees have a lot to offer organizations in terms of their knowledge, passion, and abilities. Mangers, however, have to recognize and understand the behaviors of this group in order to create an environment in which work can be accomplished efficiently, effectively, and without disruptive conflict.

Managing Negative Behavior in the Workplace

Jerry notices the oil is low in his forklift but continues to drive it until it overheats and can't be used. After enduring 11 months of repeated insults and mistreatment from her supervisor, Maria quits her job. An office clerk slams her keyboard and then shouts profanity whenever her computer freezes up. Rudeness, hostility, aggression, and other forms of workplace negativity have become all too common in today's organizations. In a survey of U.S. employees, 10 percent said they witnessed rudeness daily within their workplaces and 20 percent said that they personally were direct targets of incivility at work at least once a week. In a survey of Canadian workers, 25 percent reported seeing incivility daily and 50 percent said they were the direct targets at least once per week.[94] Some estimates put the costs of negativity to the U.S. economy at $300 billion a year.[95] What can managers do to manage negative behavior in the workplace?

The main thing is to recognize that it's there. Pretending that negative behavior doesn't exist or ignoring such misbehaviors will only confuse employees about what is expected and acceptable behavior. Although some debate among researchers questions whether

preventive or responsive actions to negative behaviors are more effective, in reality, both are needed.[96] Preventing negative behaviors by carefully screening potential employees for certain personality traits and responding immediately and decisively to unacceptable negative behaviors can go a long way toward managing negative workplace behaviors. But it's also important to pay attention to employee attitudes, because negativity will show up there as well. As we said earlier, when employees are dissatisfied with their jobs, they *will* respond somehow.

Let's Get Real:

My Response *to A Manager's Dilemma, page 372*

Maintaining an "employees first" philosophy can be a cornerstone on which a company can build success. At Integrity Home Care our mission statement articulates that approach: "Our mission is to cultivate a Christian-based environment in which we can identify and meet the home care needs of our clients and the career needs of our employees with unmatched skill, compassion, and integrity."

The key to identifying the career needs of your employees begins in the relationship that you have with those individuals. When you invest your time, energy, and compassion in your employees, they will respond by reinvesting themselves in the company. If you can motivate team members within your department, then the performance of each individual will often surpass what you think he or she is capable of.

What Would You Do?

Jake Martin
Marketing Manager
Integrity Home Care
Springfield, MO

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 14.1

Identify the focus and goals of individual behavior within organizations.

Just like an iceberg, it's the hidden organizational elements (attitudes, perceptions, norms, etc.) that make understanding individual behavior so challenging.

Organization behavior (OB) focuses on three areas: individual behavior, group behavior, and organizational aspects. The goals of OB are to explain, predict, and influence behavior.

Employee productivity is a performance measure of both efficiency and effectiveness. Absenteeism is the failure to report to work. Turnover is the voluntary and involuntary permanent withdrawal from an organization. Organizational citizenship behavior (OCB) is discretionary behavior that's not part of an employee's formal job requirements but it promotes the effective functioning of an organization. Job satisfaction is an individual's general attitude toward his or her job. Workplace misbehavior is any intentional employee behavior that is potentially harmful to the organization or individuals within the organization.

LEARNING OUTCOME 14.2

Explain the role that attitudes play in job performance.

The cognitive component refers to the beliefs, opinions, knowledge, or information held by a person. The affective component is the emotional or feeling part of an attitude. The behavioral component refers to an intention to behave in a certain way toward someone or something.

Job satisfaction refers to a person's general attitude toward his or her job. Job involvement is the degree to which an employee identifies with his or her job, actively participates in it, and considers his or her job performance to be important to his or her self-worth. Organizational commitment is the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization. Employee engagement is when employees are connected to, satisfied with, and enthusiastic about their jobs.

Job satisfaction positively influences productivity, lowers absenteeism levels, lowers turnover rates, promotes positive customer satisfaction, moderately promotes OCB, and helps minimize workplace misbehavior.

Individuals try to reconcile attitude and behavior inconsistencies by altering their attitudes, altering their behavior, or rationalizing the inconsistency.

LEARNING OUTCOME 14.3

Describe different personality theories.

The MBTI measures four dimensions: social interaction, preference for gathering data, preference for decision making, and style of making decisions. The Big Five Model consists of five personality traits: extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience.

The five personality traits that help explain individual behavior in organizations are locus of control, Machiavellianism, self-esteem, self-monitoring, and risk-taking. Other personality traits include Type A/Type B personalities, proactive personality, and resilience.

How a person responds emotionally and how they deal with their emotions is a function of personality. A person who is emotionally intelligent has the ability to notice and to manage emotional cues and information.

Describe perception and factors that influence it.

LEARNING OUTCOME 14.4

Perception is how we give meaning to our environment by organizing and interpreting sensory impressions. Because people behave according to their perceptions, managers need to understand it.

Attribution theory depends on three factors. Distinctiveness is whether an individual displays different behaviors in different situations (that is, is the behavior unusual). Consensus is whether others facing a similar situation respond in the same way. Consistency is when a person engages in behaviors regularly and consistently. Whether these three factors are high or low helps managers determine whether employee behavior is attributed to external or internal causes.

The fundamental attribution error is the tendency to underestimate the influence of external factors and overestimate the influence of internal factors. The self-serving bias is the tendency to attribute our own successes to internal factors and to put the blame for personal failure on external factors.

Three shortcuts used in judging others are assumed similarity, stereotyping, and the halo effect.

Discuss learning theories and their relevance in shaping behavior.

LEARNING OUTCOME 14.5

Operant conditioning argues that behavior is a function of its consequences. Managers can use it to explain, predict, and influence behavior.

Social learning theory says that individuals learn by observing what happens to other people and by directly experiencing something.

Managers can shape behavior by using positive reinforcement (reinforcing a desired behavior by giving something pleasant), negative reinforcement (reinforcing a desired response by withdrawing something unpleasant), punishment (eliminating undesirable behavior by applying penalties), or extinction (not reinforcing a behavior to eliminate it).

Discuss contemporary issues in organizational behavior.

LEARNING OUTCOME 14.6

The challenge of managing Gen Y workers is that they bring new attitudes to the workplace. The main challenges are over issues such as appearance, technology, and management style.

Workplace misbehavior can be dealt with by recognizing that it's there; carefully screening potential employees for possible negative tendencies; and most importantly, by paying attention to employee attitudes through surveys about job satisfaction and dissatisfaction.

To check your understanding of learning outcomes 14.1 – 14.6 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Does the importance of knowledge of OB differ based on a manager's levels in the organization? If so, how? If not, why not? Be specific.
2. Explain why the concept of an organization as an iceberg is important.
3. Describe the focus and goals of OB.
4. Define the six important employee behaviors.
5. Describe the three components of an attitude and explain the four job-related attitudes.
6. Contrast the MBTI and the Big Five model. Describe five other personality traits that help explain individual behavior in organizations.

7. Explain how an understanding of perception can help managers better understand individual behavior. Name three shortcuts used in judging others.
8. Describe the key elements of attribution theory. Discuss the fundamental attribution error and self-serving bias.
9. Describe operant conditioning and how managers can shape behavior.
10. Explain the challenges facing managers in managing generational differences and negative behavior in the workplace.

PREPARING FOR: My Career

ETHICS DILEMMA

It's been called the "desperation hustle."[97] Employees who are "anxious about layoffs want to look irreplaceable." So they clean up their act. Those who might not have paid much attention to their manner of dress now do. Those who were mouthy and argumentative are now quiet and compliant. Those who used to "watch the clock" are now the last to leave. The fear is there and it's noticeable. "Managing that fear can be challenging." What ethical issues might arise for both employees and for managers? How could managers approach these circumstances ethically?

SKILLS EXERCISE

Developing Your Shaping Behavior Skill

About the Skill

In today's dynamic work environments, learning is continual. But this learning shouldn't be done in isolation or without any guidance. Most employees need to be shown what's expected of them on the job. As a manager, you must teach your employees the behaviors that are most critical to their, and the organization's, success.

Steps in Practicing the Skill

1. **Identify the critical behaviors that have a significant impact on an employee's performance.** Not everything employees do on the job is equally important in terms of performance outcomes. A few critical behaviors may, in fact, account for the majority of one's results. These high impact behaviors need to be identified.
2. **Establish a baseline of performance.** A baseline is obtained by determining the number of times the identified behaviors occur under the employee's present job conditions.
3. **Analyze the contributing factors to performance and their consequences.** A number of factors, such as the norms of a group, may be contributing to the baseline performance. Identify these factors and their effect on performance.
4. **Develop a shaping strategy.** The change that may occur will entail changing some element of performance—structure, processes, technology, groups, or the task. The purpose of the strategy is to strengthen the desirable behaviors and weaken the undesirable ones.
5. **Apply the appropriate strategy.** Once the strategy has been developed, it needs to be implemented. In this step, an intervention occurs.
6. **Measure the change that has occurred.** An intervention should produce the desired results in performance behaviors. Evaluate the number of times the identified behaviors now occur. Compare these with the baseline evaluation in step 2.
7. **Reinforce desired behaviors.** If an intervention has been successful and the new behaviors are producing the desired results, maintain these behaviors through reinforcement mechanisms.

Practicing the Skill

a. Imagine that your assistant is ideal in all respects but one—he or she is hopeless at taking phone messages for you when you're not in the office. You're often in training sessions and the calls are sales leads you want to follow up, so you have identified taking accurate messages as a high impact behavior for your assistant.

b. Focus on steps 3 and 4, and devise a way to shape your assistant's behavior. Identify some factors that might contribute to his or her failure to take messages—these could range from a heavy workload to a poor understanding of the task's importance (you can rule out insubordination). Then develop a shaping strategy by determining what you can change—the available technology, the task itself, the structure of the job, or some other element of performance.

c. Now plan your intervention and take a brief meeting with your assistant in which you explain the change you expect. Recruit a friend to help you role-play your intervention. Do you think you would succeed in a real situation?

WORKING TOGETHER
Team Exercise

You may not like it or want to believe it, but unprofessional dress can be a career-killer.[98] Pretend that you're a manager in a large, multinational company. Your company has a dress code policy, but men and women alike "cross the line." One of your female subordinates is the worst offender. Several times, she has come to work dressed in sheer, low-cut, sleeveless blouses with a micro-mini skirt and strappy sandals. How would you change her behavior?

Form small groups of three to four individuals. Your team's task is to come up with a specific plan for changing (shaping) the behavior of any employee who violates the dress code policy. Write this up and be prepared to share your ideas with the class.

MY TURN TO BE A MANAGER

- For one week, pay close attention to how people around you behave, especially those people who are close to you (roommates, siblings, significant others, coworkers, etc.). Use what you've learned about attitudes, personality, perception, and learning to understand and explain how and why they're behaving the way they do. Write your observations and your explanations in a journal.
- Write down three attitudes you have. Identify the cognitive, affective, and behavioral components of those attitudes.
- Survey 15 employees (at your place of work or at some campus office). Be sure to obtain permission before doing this anonymous survey. Ask them what rude or negative behaviors they've seen at work. Compile your findings in a report and be prepared to discuss this in class. If you were the manager in this workplace, how would you handle this behavior?
- If you've never taken a personality or career compatibility test, contact your school's testing center to see if you can take one. Once you get your results, evaluate what they mean for your career choice. Have you chosen a career that "fits" your personality? What are the implications?
- Have you ever heard of the "waiter rule"? A lot of business people think that how you treat service workers says a lot about your character and attitudes. What do you think this means? Do you agree with this idea? Why or why not? How would you be evaluated on the "waiter rule"?
- Like it or not, each of us is continually shaping the behavior of those around us. For one week, keep track of how many times you use positive reinforcement, negative reinforcement, punishment, or extinction to shape behaviors. At the end of the week, which one did you tend to use most? What were you trying to do; that is, what behaviors were you trying to shape? Were your attempts successful? Evaluate. What could you have done differently if you were trying to change someone's behavior?
- Create a job satisfaction survey for a business you're familiar with.
- Now, do a Web search for sample job satisfaction surveys. Find one or two samples. Write a report describing, comparing, and evaluating the examples you found and the survey you created.
- Steve's and Mary's recommended readings: Jonathan Littman and Mark Herson, *I Hate People!* (Little-Brown, 2009); Yoav Vardi and Ely Weitz, *Misbehavior in Organizations* (Lawrence Erlbaum Associates, 2004); Murray R. Barrick and A. M. Ryan, eds., *Personality and Work* (Jossey-Bass, 2003); Daniel Goleman, *Destructive Emotions: How Can We Overcome Them?* (Bantam, 2003); L. Thomson, *Personality Type: An Owner's Manual* (Shambhala, 1998); and Daniel Goleman, *Working with Emotional Intelligence* (Bantam, 1998).
- Survey 10 Gen Yers. Ask them three questions: (1) What do you think appropriate office attire is? (2) How comfortable are you with using technology and what types of technology do you rely on most? (3) What do you think the "ideal" boss would be like? Compile your results into a paper that reports your data and summarizes your findings in a bulleted list format.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What's My Basic Personality? What's My Jungian 16-Type Personality? (Note that this is a miniature version of the MBTI.) Am I a Type A? What Do I Value? How Involved Am I in My Job? How Satisfied Am I With My Job? Am I Engaged? How Are You Feeling Right Now? What's My Affect Intensity? What's My Emotional Intelligence Score? How Committed Am I to My Organization? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Understanding HCLites: Part 2

These new engineers at HCL Technologies received certificates for becoming proficient in the Japanese language. As part of its "employees first" culture, the company invests in language training and other development programs that help satisfy HCLites' high need for achievement.

HCL Technologies is headquartered in the world's largest democracy, so it's quite fitting that the New Delhi-based company is attempting a radical experiment in workplace democracy. CEO Vineet Nayar is committed to creating a company where the job of company leaders is to enable people to find their own destiny by gravitating to their strengths.[99] As we discussed in the chapter opener, one thing that Nayar has done is to pioneer a culture in which employees are first. What has he done to put employees first? Part of the cultural initiative dealt with the organization's structure. HCL inverted its organizational structure and placed more power in the hands of frontline employees, especially those in direct contact with customers and clients. It increased its investment in employee development and improved communication through greater transparency. Employees were encouraged to communicate directly with Nayar. Through a forum called U&I (You and I), Nayar fielded more than 100 questions from employees every week. "I threw open the door and invited criticism," he said. However, the signature piece of the company's cultural mission is probably what HCL called "trust pay." In contrast to the industry standard in which the average employee's pay is 30 percent variable, HCL decided to pay higher fixed salaries and reduce the variable component.

Does the unique "employees first" culture at HCL Technologies attract unique employees? Rajeev Sawhney, HCL's European president, would say it does. He uses *Slumdog Millionaire,* the movie that won the Academy Award for Best Picture in 2009, as a parallel. "It (the movie) is a reflection of the Indian race. It shows the adversity that creates the desire in people to reach out and create.... With each adversity they face, there is a greater desire to reach out and do something more." Sawhney says that entrepreneurialism is a key value of the HCL culture. "You can still tell an HCL person from a mile off. I think there is a particular DNA for an HCL person. It includes a very high need for achievement and very persuasive skills. HCL people are very energetic; they want to do lots of things and to take risks on behalf of the company."

Discussion Questions

1. What is your impression of an "employee first" culture? Would this work in other organizations? Why or why not? What would it take to make it work?
2. How might an understanding of organizational behavior help CEO Vineet Nayar lead his company? Be specific. How about first-line company supervisors? Again, be specific.
3. What aspects of personality do you see in this story about HCL? How have the personality traits of HCL employees contributed to make what HCL what it is?
4. Design an employee attitude survey for HCL's employees. Compare your ideas with what our "real" manager suggested.

CASE APPLICATION 2

Odd Couples

A 29-year-old and a 68-year-old. How much could they possibly have in common? And what could they learn from each other? At Randstad USA's Manhattan office, such employee pairings are common.[100] One such pair of colleagues sits inches apart facing each other. "They hear every call the other makes. They read every e-mail the other sends or receives. Sometimes they finish each other's sentences."

Randstad Holding NV, a Dutch company, has been using this pairing idea since its founding more than 40 years ago. The founder's motto was "Nobody should be alone." The original intent was to boost productivity by having sales agents share one job and trade off job responsibilities. Today, these partners in the home office have an arrangement where one is in the office one week while the other one is out making sales calls, then the next week, they switch. The company brought its partner arrangement to the United States in the late 1990s. But when it began recruiting new employees, the vast majority of whom were in their twenties, it realized the challenges and the potential of pairing different generations together. "Knowing that these Gen Yers need lots of attention in the workplace, Randstad executives figured that if they shared a job with someone whose own success depended on theirs, they were certain to get all the nurturing they required."

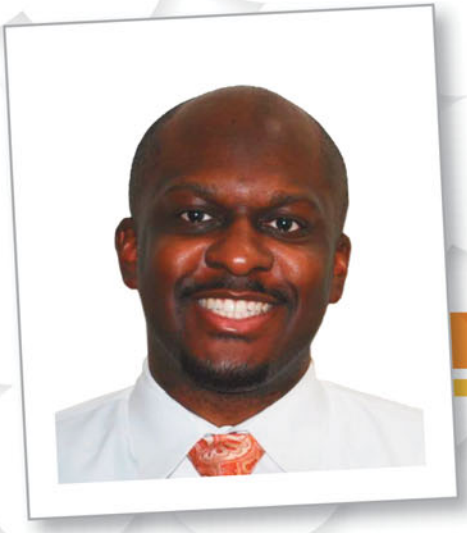
Randstad doesn't simply pair up people and hope it works. There's more to it than that! The company looks for people who will work well with others by conducting extensive interviews and requiring job applicants to shadow a sales agent for half a day. "One question Randstad asks is: What's your most memorable moment while being on a team? If they respond: When I scored the winning touchdown, that's a deal killer. Everything about our organization is based on the team and group." When a new hire is paired with an experienced agent, both individuals have some adjusting. One of the most interesting elements of Randstad's program is that neither person is "the boss." And both are expected to teach the other.

Discussion Questions

1. What topics of individual behavior do you see in this story? Explain.
2. What do you think about this pairing-up idea? Would you be comfortable with such an arrangement? Why or why not?
3. What personality traits would be most needed for this type of work arrangement? Why?
4. What types of issues might a Gen Y employee and an older, more-experienced employee face? How could two people in such a close-knit work arrangement deal with those issues? That is, how could both make the adjustment easier?
5. Design an employee attitude survey for Randstad's employees.

15 CHAPTER

Let's Get Real:



You'll be hearing more from this real manager throughout the chapter.

Meet the Manager

Glenn A. Jones

Oral Care Consultant/Technology Trainer
Colgate Oral Pharmaceuticals
New York, NY

MY JOB:

I'm an oral care consultant for Colgate Oral Pharmaceuticals in northern New Jersey. My primary job duties involve selling, advising, and educating dental professionals regarding prescription-strength oral care products for their patients. In addition to this, I serve as a technology trainer for Colgate. In this capacity I provide training and support to our sales team as it relates to the various technologies required to do our jobs.

BEST PART OF MY JOB:

What I love most about my job is advising dental professionals on the products and courses of action that will deliver the best outcomes for their patient's oral health. In addition, I love the fact that I can help dental professionals maximize their success from an efficiency standpoint, which will in turn help grow their business.

Managers *and* Communication

LEARNING OUTCOMES

15.1 **Define** the nature and function of communication. *page 404*

15.2 **Compare** and contrast methods of interpersonal communication. *page 406*

15.3 **Identify** barriers to effective interpersonal communication and how to overcome them. *page 409*

15.4 **Explain** how communication can flow most effectively in organizations. *page 412*

15.5 **Describe** how technology affects managerial communication and organizations. *page 416*

15.6 **Discuss** contemporary issues in communication. *page 417*

WORST PART OF MY JOB:

Something I would like to change about my job is how we manage relationships. Often because of the size of a given territory it is not possible to see dental professionals on regular basis. This makes it hard to build up a trust and comfort level with those I am advising. Every day I seek to find ways to better foster these client relationships. It is the key to long-term success.

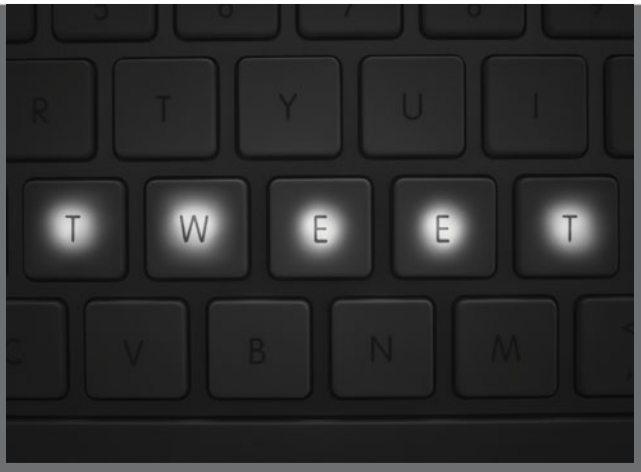
BEST MANAGEMENT ADVICE EVER RECEIVED:

You are only as strong as your weakest link. This really resonated with me because no matter how successful you or your organization becomes, it is always vulnerable if strength is not developed through and through. If one employee or aspect of your organization is not strong enough because of inadequate training, disillusionment, or other negative practices, it can cause a domino effect that leads to more and more problems and failures. In this respect, individuals and organizations should seek continuous improvement to shore up weak points and to foster continued success and longevity.

A Manager's Dilemma

Tweets. Twittering. Five years ago, the only definition we would have known for these words would have involved birds and the sounds they make. Now, practically everyone knows that Twitter is also an online service used by millions of people to trade short messages of 140 characters or less via the Web, cell phones, and other devices.[1] According to its founders (Jack Dorsey, Biz Stone, and Evan Williams), Twitter is many things: a messaging service, a customer-service tool to reach customers, real-time search, and microblogging. And as the numbers show, it's become quite popular!

One place where Twitter has caught on is college sports. For instance, Les Miles, head football coach at Louisiana State University calls himself "a Twittering kind of guy." He understands the power of instant communication. Miles wants to stay ahead of the competition, especially when it comes to recruiting and keeping fans informed. He said, "It (Twittering) allows us to communicate blasts of information to those people that subscribe. And it's also an opportunity for those recruiting prospects that subscribe to communicate to us." During the fall 2009 season, he Twittered (via a staff assistant) before games, at halftime, and after games. The challenge for organizations is how to control the information flow.



What Would You Do?

Welcome to the new world of communication! In this "world," managers are going to have to understand both the importance and the drawbacks of communication—all forms of communication. Communication between managers and employees is important because it provides the information necessary to get work done in organizations. Thus, there's no doubt that communication is fundamentally linked to managerial performance.[2]

LEARNING OUTCOME 15.1
Define the nature and function of communication.

The Nature and Function of Communication

On a recent summer day, Chevrolet employees at General Motors' Detroit headquarters got an internal memo requesting that they stop using the word "Chevy" when referring to their car brand.[3] Despite the fact that "Chevy" has been one of the world's best-known, longest-lived product nicknames for a best-selling line of cars and trucks and was immortalized in a song about Miss American Pie driving to the levee, the memo was signed by two top corporate Chevrolet division executives who cited the need for brand consistency. After the memo made its way into the media and invoked a strong public reaction, GM backtracked. It posted a video interview with one of the executives who had signed the memo on Chevrolet's YouTube channel. During the video, the executive used the word Chevy no fewer than six times in less than two minutes. He also called the memo a "rough draft" and "a bit of fun" and explained that "there would be no massive change of direction." This example shows why it's important for managers to understand the impact of communication.

The importance of effective communication for managers can't be overemphasized for one specific reason: Everything a manager does involves communicating. Not *some* things, but everything! A manager can't make a decision without information. That information has to be communicated. Once a decision is made, communication must again take place. Otherwise, no one would know that a decision was made. The best idea, the most creative suggestion, the best plan, or the most effective job redesign can't take shape without communication.

What Is Communication?

Communication is the transfer and understanding of meaning. Note the emphasis on the *transfer* of meaning: If information or ideas have not been conveyed, communication hasn't taken place. The speaker who isn't heard or the writer whose materials aren't read

Menlo Innovations is a noisy, high-energy workplace where communication provides the information employees need to accomplish their work and the motivation to improve their performance. All employees at this software design firm work side by side in pairs and share a computer in one large work room. At the end of each week, the pairs switch partners. When a veteran employee and intern work together, the veteran can pass along experience and knowledge and the intern can share what's new in college computer classes. Menlo's CEO Richard Sheridan believes that continual information-sharing among employees results in higher-quality work and greater productivity and also boosts employee morale.

hasn't communicated. More importantly, however, communication involves the *understanding* of meaning. For communication to be successful, the meaning must be imparted and understood. A letter written in Spanish addressed to a person who doesn't read Spanish can't be considered communication until it's translated into a language the person does read and understand. Perfect communication, if such a thing existed, would be when a transmitted thought or idea was received and understood by the receiver exactly as it was envisioned by the sender.

Another point to keep in mind is that *good* communication is often erroneously defined by the communicator as *agreement* with the message instead of clear understanding of the message.[4] If someone disagrees with us, we assume that the person just didn't fully understand our position. In other words, many of us define good communication as having someone accept our views. But I can clearly understand what you mean and just *not* agree with what you say.

The final point we want to make about communication is that it encompasses both **interpersonal communication**—communication between two or more people—and **organizational communication**, which is all the patterns, networks, and systems of communication within an organization. Both types are important to managers.

Functions of Communication

Kevin M. Warren, chairman of the board, president, and CEO of Xerox Canada, Ltd. was awarded the 2010 Excellence in Communication Leadership (EXCEL) Award by the International Association of Business Communicators. This award recognizes leaders who foster excellence in communication and contribute to the development and support of organizational communication. His award nomination stated, "Kevin has been an advocate of communication from the start. He is its biggest supporter and a role model for others. Kevin clearly understands the relationship of employee communication and engagement, and ultimately business success. The positive impact of his commitment is far-reaching, and extends beyond employees to all his constituencies."[5]

Throughout Xerox Canada and many other organizations, communication serves four major functions: control, motivation, emotional expression, and information.[6] Each function is equally important.

Communication acts to *control* employee behavior in several ways. As we know from Chapter 10, organizations have authority hierarchies and formal guidelines that employees are expected to follow. For instance, when employees are required to communicate any job-related grievance to their immediate manager, to follow their job description, or to comply with company policies, communication is being used to control. Informal communication also controls behavior. When a work group teases a member who's ignoring the norms by working too hard, they're informally controlling the member's behavior.

communication
The transfer and understanding of meaning

interpersonal communication
Communication between two or more people

organizational communication
All the patterns, networks, and systems of communication within an organization

Next, communication acts to *motivate* by clarifying to employees what is to be done, how well they're doing, and what can be done to improve performance if it's not up to par. As employees set specific goals, work toward those goals, and receive feedback on progress toward goals, communication is required.

For many employees, their work group is a primary source of social interaction. The communication that takes place within the group is a fundamental mechanism by which members share frustrations and feelings of satisfaction. Communication, therefore, provides a release for *emotional expression* of feelings and for fulfillment of social needs.

Finally, individuals and groups need information to get things done in organizations. Communication provides that *information.*

LEARNING OUTCOME 15.2
Compare and contrast methods of interpersonal communication.

Methods of Interpersonal Communication

Before communication can take place, a purpose, expressed as a **message** to be conveyed, must exist. It passes between a source (the sender) and a receiver. The message is converted to symbolic form (called **encoding**) and passed by way of some medium (**channel**) to the receiver, who retranslates the sender's message (called **decoding**). The result is the transfer of meaning from one person to another.[7]

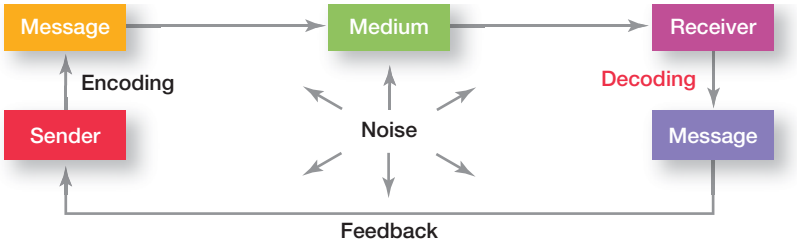
Exhibit 15-1 illustrates the elements of the **communication process**. Note that the entire process is susceptible to **noise**—disturbances that interfere with the transmission, receipt, or feedback of a message. Typical examples of noise include illegible print, phone static, inattention by the receiver, or background sounds of machinery or coworkers. However, anything that interferes with understanding can be noise, and noise can create distortion at any point in the communication process.

A personal written letter from a U.S. Army commander in Afghanistan to his troops assured them that they are "contributing to the overall success of the mission" here. Colonel David Haight, of the 10th Mountain Division's 3rd Brigade Combat team, sent the letter to each of the 3,500 men and women after two of their fellow soldiers were killed in combat and his chaplains reported that many were disillusioned about the war. Haight said, "I can tell a soldier to do anything, and he may or may not in his mind question why. But if you explain the why very, very clearly, he will not only accomplish the mission, but he will do the mission to a much higher standard."[8] Here's a manager who understands the role of communication and how best to communicate to his subordinates.

You need to communicate to your employees the organization's new policy on sexual harassment; you want to compliment one of your workers on the extra hours she's put in to help your team complete a customer's order; you must tell one of your employees about changes to his job; or you would like to get employees' feedback on your proposed budget for next year. In each of these instances, how would you communicate? Managers have a wide variety of communication methods from which to choose and can use 12 questions to help them evaluate these methods.[9]

1. *Feedback*: How quickly can the receiver respond to the message?
2. *Complexity capacity*: Can the method effectively process complex messages?
3. *Breadth potential*: How many different messages can be transmitted using this method?

EXHIBIT 15-1
The Interpersonal Communication Process



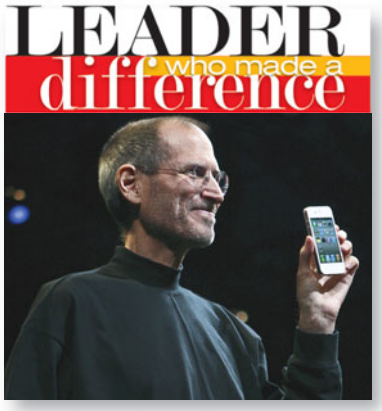
4. *Confidentiality*: Can communicators be reasonably sure their messages are received only by those intended?
5. *Encoding ease*: Can sender easily and quickly use this channel?
6. *Decoding ease*: Can receiver easily and quickly decode messages?
7. *Time-space constraint*: Do senders and receivers need to communicate at the same time and in the same space?
8. *Cost*: How much does it cost to use this method?
9. *Interpersonal warmth*: How well does this method convey interpersonal warmth?
10. *Formality*: Does this method have the needed amount of formality?
11. *Scanability*: Does this method allow the message to be easily browsed or scanned for relevant information?
12. *Time of consumption*: Does the sender or receiver exercise the most control over when the message is dealt with?

Exhibit 15-2 provides a comparison of various communication methods. Which method a manager ultimately chooses should reflect the needs of the sender, the attributes of the message, the attributes of the channel, and the needs of the receiver. For instance, if you need to communicate to an employee about the changes being made in her job, face-to-face communication would be a better choice than a memo because you want to be able to address immediately any questions and concerns she might have.

An important part of interpersonal communication is **nonverbal communication**—that is, communication transmitted without words. Some of the most meaningful communications are neither spoken nor written. When a college instructor is teaching a class, she doesn't need words to tell her that students are tuned out when they begin to read a newspaper in the middle of class. Similarly, when students start putting their book, papers, and notebooks away, the message is clear: Class time is about over. The size of a person's office or the clothes he or she wears also convey messages to others. Among these various forms of nonverbal communication, the best-known types are body language and verbal intonation.

Body language refers to gestures, facial expressions, and other body movements that convey meaning. A person frowning "says" something different from one who's smiling. Hand motions, facial expressions, and other gestures can communicate emotions or temperaments such as aggression, fear, shyness, arrogance, joy, and anger. Knowing the meaning behind someone's body moves and learning how to put forth your best body language can help you personally and professionally.[10]

Verbal intonation refers to the emphasis someone gives to words or phrases in order to convey meaning. To illustrate how intonations can change the meaning of a message, consider the student who asks the instructor a question. The instructor replies, "What do you mean by that?" The student's reaction will vary, depending on the tone of the instructor's response. A soft, smooth vocal tone conveys interest and creates a different meaning from one that is abrasive and puts a strong emphasis on saying the last word. Most of us would



Steve Jobs is known as the cofounder of Apple and purveyor of cool tech products.[11] When he takes the stage at MacWorld, the annual conference/expo of everything Mac where he introduces Apple's new products, you won't see him in a suit and tie like most CEOs at their most important annual event. Jobs has fashioned a distinctive image for himself with his consistent choice of black polo shirt and black or blue jeans . . . an image that portrays Apple as being alternative, savvy, and hip. And some say, it's a smart way of communicating with Gen X and Gen Y consumers who thrive on transparency, creativity, and personal choice. And Jobs has a sense of humor. At his recent MacWorld introduction of the new iPhone 4, Jobs made a humorous reference to the prototype found in a coffee shop by a tech magazine writer, by saying, "Stop me if you have already seen this," when he first showed the device. Here's a leader who understands and exploits the power of nonverbal communication and connecting with his audience.

message
A purpose to be conveyed

encoding
Converting a message into symbols

channel
The medium a message travels along

decoding
Retranslating a sender's message

communication process
The seven elements involved in transferring meaning from one person to another

noise
Any disturbances that interfere with the transmission, receipt, or feedback of a message

nonverbal communication
Communication transmitted without words

body language
Gestures, facial configurations, and other body movements that convey meaning

verbal intonation
An emphasis given to words or phrases that conveys meaning

EXHIBIT 15-2

Comparison of Communication Methods

High Feedback Potential
- Face-to-face
- Telephone
- Computer conference

Low Feedback Potential
- Publications

High Complexity Capacity
- Face-to-face

Low Complexity Capacity
- Bulletin boards

High Breadth Potential
- Face-to-face
- Bulletin boards
- E-mail

Low Breadth Potential
- Postal mail
- Audio-videotapes

High Confidentiality
- Face-to-face
- Voice mail

Low Confidentiality
- Publications
- Bulletin boards
- Audio-videotapes
- Teleconference

High Encoding Ease
- Face-to-face
- Telephone

Low Encoding Ease
- Publications

High Time-Decoding Ease
- Face-to-face
- Telephone
- Hotlines
- Voice mail

Low Time-Decoding Ease
- Memos
- Postal mail
- Fax
- Publications

High Space Constraint
- Face-to-face
- Group meetings
- Formal presentations

Low Space Constraint
- Memos
- Postal mail
- Fax
- Publications
- Voice mail

High Cost
- Group meetings
- Formal presentations
- Videoconference

Low Cost
- Bulletin boards

High Personal Warmth
- Face-to-face

Low Personal Warmth
- Memos
- Bulletin boards

High Formality
- Postal mail
- Publications

Low Formality
- Face-to-face
- Telephone
- Voice mail

High Scanability
- Memos
- Postal mail
- Fax
- Publications
- Bulletin boards

Low Scanability
- Formal presentations
- Face-to-face
- Telephone
- Group meetings
- Audio-videotapes
- Hotlines
- E-mail
- Computer conference
- Voice mail
- Teleconference
- Videoconference

Source: Based on P. G. Clampitt, *Communicating for Managerial Effectiveness* (Newbury Park, CA: Sage Publications, 1991), p. 136.

view the first intonation as coming from someone sincerely interested in clarifying the student's concern, whereas the second suggests that the person resents the question.

Managers need to remember that as they communicate, the nonverbal component usually carries the greatest impact. It's not *what* you say, but *how* you say it.

Effective Interpersonal Communication

15.3 LEARNING OUTCOME
Identify barriers to effective interpersonal communication and how to overcome them.

A company with 100 employees can expect to lose approximately $450,000 a year, or more, because of e-mail blunders, inefficiencies, and misunderstandings.[12] The chief executive of a marketing firm in New York was in a meeting with a potential client. For the entire hour-and-a-half meeting, the client was fiddling with his iPhone. Doing what? Playing a racing game, although he did glance up occasionally and ask questions.[13] Research done by an HR consulting firm found that U.S. and U.K. employees cost their businesses $37 billion every year because they don't really understand their jobs.[14]

Somewhere, somehow communication isn't being as effective as it needs to be. One reason is that managers face barriers that can distort the interpersonal communication process. Let's look at these barriers to effective communication.

Barriers to Communication

FILTERING. **Filtering** is the deliberate manipulation of information to make it appear more favorable to the receiver. For example, when a person tells his or her manager what the manager wants to hear, information is being filtered. Or if information being communicated up through organizational levels is condensed by senders, that's filtering.

How much filtering takes place tends to be a function of the number of vertical levels in the organization and the organizational culture. The more vertical levels in an organization, the more opportunities there are for filtering. As organizations use more collaborative, cooperative work arrangements, information filtering may become less of a problem. In addition, e-mail reduces filtering because communication is more direct. Finally, the organizational culture encourages or discourages filtering by the type of behavior it rewards. The more that organizational rewards emphasize style and appearance, the more managers may be motivated to filter communications in their favor.

EMOTIONS. How a receiver feels when a message is received influences how he or she interprets it. Extreme emotions are most likely to hinder effective communication. In such instances, we often disregard our rational and objective thinking processes and substitute emotional judgments.

INFORMATION OVERLOAD. A marketing manager goes on a week-long sales trip to Spain where he doesn't have access to his e-mail, and he faces 1,000 messages on his return. It's not possible to fully read and respond to each message without facing **information overload**, which is when information exceeds our processing capacity. Today's employees frequently complain of information overload. Statistics show that 87 percent of employees use e-mail and that the average business e-mail user devotes 107 minutes a day to e-mail—about 25 percent of the workday. Other statistics show that employees send and receive an average of 150 e-mail messages every day. And the number of worldwide e-mail messages sent daily is a staggering 97.3 billion.[15] The demands of keeping up with e-mail, text messages, phone calls, faxes, meetings, and professional reading create an onslaught of data. What happens when individuals have more information than they can process? They tend to ignore, pass over, forget, or

filtering
The deliberate manipulation of information to make it appear more favorable to the receiver

information overload
When information exceeds our processing capacity

selectively choose information. Or they may stop communicating. Regardless, the result is lost information and ineffective communication.

DEFENSIVENESS. When people feel they're being threatened, they tend to react in ways that hinder effective communication and reduce their ability to achieve mutual understanding. They become defensive—verbally attacking others, making sarcastic remarks, being overly judgmental, or questioning others' motives.[16]

LANGUAGE. Conservative author/journalist Ann Coulter and rapper Nelly both speak English, but the language each uses is vastly different. Words mean different things to different people. Age, education, and cultural background are three of the more obvious variables that influence the language a person uses and the definitions he or she gives to words.

In an organization, employees come from diverse backgrounds and have different patterns of speech. Even employees who work for the same organization but in different departments often have different **jargon**—specialized terminology or technical language that members of a group use to communicate among themselves.

NATIONAL CULTURE. For technological and cultural reasons, the Chinese people dislike voice mail.[17] This general tendency illustrates how communication differences can arise from national culture as well as different languages. For example, let's compare countries that value individualism (such as the United States) with countries that emphasize collectivism (such as Japan).[18]

In an individualistic country like the United States, communication is more formal and is clearly spelled out. Managers rely heavily on reports, memos, and other formal forms of communication. In a collectivist country like Japan, more interpersonal contact takes place, and face-to-face communication is encouraged. A Japanese manager extensively consults with subordinates over an issue first and draws up a formal document later to outline the agreement that was made.

Overcoming the Barriers

On average, an individual must hear new information seven times before he or she truly understands.[19] In light of this fact and the communication barriers just described, what can managers do to be more effective communicators?

USE FEEDBACK. Many communication problems are directly attributed to misunderstanding and inaccuracies. These problems are less likely to occur if the manager gets feedback, both verbal and nonverbal.

A manager can ask questions about a message to determine whether it was received and understood as intended. Or the manager can ask the receiver to restate the message in his or her own words. If the manager hears what was intended, understanding and accuracy should improve. Feedback can also be more subtle, and general comments can give a manager a sense of the receiver's reaction to a message.

Feedback also doesn't have to be verbal. If a sales manager e-mails information about a new monthly sales report that all sales representatives will need to complete and some of them don't turn it in, the sales manager has received feedback. This feedback suggests that the sales manager needs to clarify the initial communication. Similarly, managers can look for nonverbal cues to tell whether someone's getting the message.

SIMPLIFY LANGUAGE. Because language can be a barrier, managers should consider the audience to whom the message is directed and tailor the language to them.[20] Remember, effective communication is achieved when a message is both received and *understood*. For example, a hospital administrator should always try to communicate in clear, easily understood terms and to use language tailored to different employee groups. Messages to the surgical staff should be purposefully different from those used with office employees.

Jargon can facilitate understanding if it's used within a group that knows what it means, but can cause problems when used outside that group.

LISTEN ACTIVELY. When someone talks, we hear, but too often we don't listen. Listening is an active search for meaning, whereas hearing is passive. In listening, the receiver is also putting effort into the communication.

Many of us are poor listeners. Why? Because it's difficult, and most of us would rather do the talking. Listening, in fact, is often more tiring than talking. Unlike hearing, **active listening**, which is listening for full meaning without making premature judgments or interpretations, demands total concentration. The average person normally speaks at a rate of about 125 to 200 words per minute. However, the average listener can comprehend up to 400 words per minute.[21] The difference leaves lots of idle brain time and opportunities for the mind to wander.

Active listening is enhanced by developing empathy with the sender—that is, by putting yourself in the sender's position. Because senders differ in attitudes, interests, needs, and expectations, empathy makes it easier to understand the actual content of a message. An empathetic listener reserves judgment on the message's content and carefully listens to what is being said. The goal is to improve one's ability to get the full meaning of a communication without distorting it by premature judgments or interpretations. Other specific behaviors that active listeners demonstrate are listed in Exhibit 15-3. As you can see, active listening takes effort, but it can help make communication much more effective.

CONSTRAIN EMOTIONS. It would be naïve to assume that managers always communicate in a rational manner. We know that emotions can cloud and distort communication. A manager who's upset over an issue is more likely to misconstrue incoming messages and fail to communicate his or her outgoing messages clearly and accurately. What to do? The simplest answer is to calm down and get emotions under control before communicating.

WATCH NONVERBAL CUES. If actions speak louder than words, then it's important to make sure your actions align with and reinforce the words that go along with them. An effective communicator watches his or her nonverbal cues to ensure that they convey the desired message.

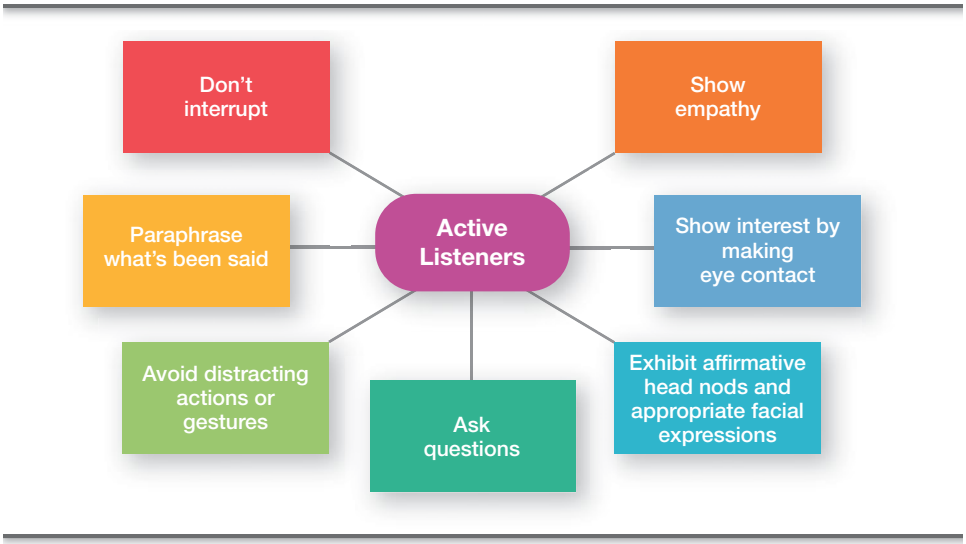


EXHIBIT 15-3
Active Listening Behaviors

Sources: Based on J. V. Thill and C. L. Bovee, *Excellence in Business Communication,* 9th ed. (Upper Saddle River, NJ: Prentice Hall, 2011), pp. 48–49; and S. P. Robbins and P. L. Hunsaker, *Training in Interpersonal Skills,* 5th ed. (Upper Saddle River, NJ: Prentice Hall, 2009), pp. 90–92.

jargon
Specialized terminology or technical language that members of a group use to communicate among themselves

active listening
Listening for full meaning without making premature judgments or interpretations

LEARNING OUTCOME 15.4
Explain how communication can flow most effectively in organizations.

Organizational Communication

Maybe you've had the experience of sitting in an employee meeting with managers when they ask if anyone has any questions—only to be met with deafening silence.[22] Communication can be an interesting thing, especially in organizations. As we've seen, managerial communication is important, but it is a two-way street. An understanding of managerial communication isn't possible without looking at organizational communication. In this section, we look at several important aspects of organizational communication, including formal versus informal communication, the flow patterns of communication, formal and informal communication networks, and workplace design.

Formal Versus Informal Communication

Communication within an organization is described as formal or informal. **Formal communication** refers to communication that takes place within prescribed organizational work arrangements. For example, when a manager asks an employee to complete a task, that's formal communication. Another example of formal communication occurs when an employee communicates a problem to his or her manager.

Informal communication is organizational communication not defined by the organization's structural hierarchy. When employees talk with each other in the lunch room, as they pass in hallways, or as they're working out at the company wellness facility, they engage in informal communication. Employees form friendships and communicate with each other. The informal communication system fulfills two purposes in organizations: (1) it permits employees to satisfy their need for social interaction, and (2) it can improve an organization's performance by creating alternative, and frequently faster and more efficient, channels of communication.

Direction of Communication Flow

Let's look at the ways that organizational communication can flow: downward, upward, laterally, or diagonally.

DOWNWARD. Every morning and often several times a day, managers at UPS package delivery facilities gather workers for mandatory meetings that last precisely three minutes. During those 180 seconds, managers relay company announcements and go over local information like traffic conditions or customer complaints. Then, each meeting ends with a safety tip. The three-minute meetings have proved so successful that many of the company's office workers are using the idea.[23] This **downward communication** is communication that flows from a manager to employees. It's used to inform, direct, coordinate, and evaluate employees. When managers assign goals to their employees, they're using downward communication. They're also using downward communication when providing employees with job descriptions, informing them of organizational policies and procedures, pointing out problems that need attention, or evaluating their performance. Downward communication can take place through any of the communication methods we described earlier.

UPWARD COMMUNICATION. Managers rely on their employees for information. For instance, reports are given to managers to inform them of progress toward goals or to report any problems. **Upward communication** is communication that flows from employees to managers. It keeps managers aware of how employees feel about their jobs, their coworkers, and the organization in general. Managers also rely on upward communication for ideas on how things can be improved. Some examples of upward communication include performance reports prepared by employees, suggestion boxes, employee attitude surveys, grievance procedures, manager-employee discussions, and informal group sessions in which employees have the opportunity to discuss problems with their manager or representatives of top-level management.

How much upward communication is used depends on the organizational culture. If managers have created a climate of trust and respect and use participative decision making or empowerment, considerable upward communication will occur as employees provide input to decisions. In a more highly structured and authoritarian environment, upward communication still takes place, but is limited.

LATERAL COMMUNICATION. Communication that takes place among employees on the same organizational level is called **lateral communication**. In today's dynamic environment, horizontal communications are frequently needed to save time and facilitate coordination. Cross-functional teams, for instance, rely heavily on this form of communication interaction. However, conflicts can arise if employees don't keep their managers informed about decisions they've made or actions they've taken.

DIAGONAL COMMUNICATION. **Diagonal communication** is communication that crosses both work areas *and* organizational levels. A credit analyst who communicates directly with a regional marketing manager about a customer's problem—note the different department and different organizational level—uses diagonal communication. Because of its efficiency and speed, diagonal communication can be beneficial. Increased e-mail use facilitates diagonal communication. In many organizations, any employee can communicate by e-mail with any other employee, regardless of organizational work area or level, even with upper-level managers. In many organizations, CEOs have adopted an "open inbox" e-mail policy. For example, William H. Swanson, head of defense contractor Raytheon Company, figures that he has received and answered more than 150,000 employee e-mails. And Henry McKinnell Jr., former CEO of Pfizer, says that the approximately 75 internal e-mails he received every day were "an avenue of communication I didn't otherwise have."[24] However, diagonal communication also has the potential to create problems if employees don't keep their managers informed.

Organizational Communication Networks

The vertical and horizontal flows of organizational communication can be combined into a variety of patterns called **communication networks**. Exhibit 15-4 illustrates three common communication networks.

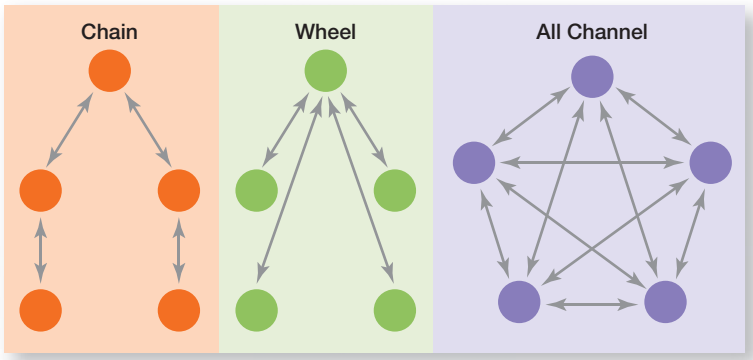


EXHIBIT 15-4
Organizational Communication Networks

formal communication
Communication that takes place within prescribed organizational work arrangements

informal communication
Communication that is not defined by the organization's structural hierarchy

downward communication
Communication that flows downward from a manager to employees

upward communication
Communication that flows upward from employees to managers

lateral communication
Communication that takes place among any employees on the same organizational level

diagonal communication
Communication that cuts across work areas and organizational levels

communication networks
The variety of patterns of vertical and horizontal flows of organizational communication

TYPES OF COMMUNICATION NETWORKS. In the *chain* network, communication flows according to the formal chain of command, both downward and upward. The *wheel* network represents communication flowing between a clearly identifiable and strong leader and others in a work group or team. The leader serves as the hub through whom all communication passes. Finally, in the *all-channel* network, communication flows freely among all members of a work team.

Which form of network you should use depends on your goal. Exhibit 15-4 also summarizes each network's effectiveness according to four criteria: speed, accuracy, the probability that a leader will emerge, and the importance of member satisfaction. One observation is immediately apparent: No single network is best for all situations.

THE GRAPEVINE. We can't leave our discussion of communication networks without discussing the **grapevine**—the informal organizational communication network. The grapevine is active in almost every organization. Is it an important source of information? You bet! One survey reported that 63 percent of employees say that they hear about important matters first through rumors or gossip on the grapevine.[25]

Certainly, the grapevine is an important part of any communication network and well worth understanding.[26] Acting as both a filter and a feedback mechanism, it pinpoints those bewildering issues that employees consider important. More importantly, from a managerial point of view, it *is* possible to analyze what is happening on the grapevine—what information is being passed, how information seems to flow, and what individuals seem to be key information conduits. By staying aware of the grapevine's flow and patterns, managers can identify issues that concern employees, and, in turn, use the grapevine to disseminate important information. Because the grapevine can't be eliminated, managers should "manage" it as an important information network.

Rumors that flow along the grapevine also can never be eliminated entirely. However, managers can minimize the negative consequences of rumors. How? By communicating openly, fully, and honestly with employees, particularly in situations where employees may not like proposed or actual managerial decisions. Open and honest communication has positive benefits for an organization. A study by Towers Watson concluded that effective communication "connects employees to the business, reinforces the organization's vision, fosters process improvement, facilitates change, and drives business results by changing employee behavior." For those companies with effective communication, total returns to shareholders were 91 percent higher over a five-year period than for companies with less effective communication. This study also showed that companies that were highly effective communicators were four times as likely to report high levels of employee engagement as firms that communicated less effectively.[27]

Workplace Design and Communication

In addition to the direction of communication flow and organizational communication networks, another factor that influences organizational communication is workplace design. Despite all the information technology and associated employee mobility (which we'll discuss in the next section), much of an organization's communication still occurs in the workplace. In fact, some 74 percent of an employee's average workweek is spent in an office.[28] How that office workspace is designed and configured can affect the communication that occurs as well as influence an organization's overall performance. In fact, in a survey of American workers, 90 percent believed that better workplace design and layout result in better overall employee performance.[29]

Research shows that a workplace design should successfully support four types of employee work: focused work, collaboration, learning, and socialization.[30] Focused work is when an employee needs to concentrate on completing a task. In collaboration, employees need to work together to complete a task. Learning is when employees are engaged in training or doing something new and could involve both focused work and

The workplace design at YouTube headquarters is flexible to support the flexibility employees have in doing their work. They are given the freedom to learn how to do something and complete a task on their own or to collaborate with coworkers, and the workplace design accommodates both situations. In open cubicles adjacent to an atrium and in small work rooms employees can concentrate on a job and learn new skills. Several different meeting rooms and informal areas enable small work teams to collaborate on completing a project and learn from members with different areas of expertise. YouTube also provides employees with many places to socialize, including a café, indoor garden, fitness center, and putting green.

collaboration. And socialization happens when employees informally gather to chat or to exchange ideas. A survey found that when workers had these types of "oases" or informal meeting places nearby, they had 102 percent more face-to-face communication than people who had only minimal access to such spots.[31] Because communication can and does take place in each of these settings, the workplace design needs to accommodate these organizational and interpersonal communications—all directions and all types—in order to be most effective.

As managers design the physical work environment, two common design elements have the greatest impact on communication.[32] First, the enclosures and barriers used in the workspace. Many organizational workplaces today are **open workplaces**; that is, they include few physical barriers and enclosures. Research has shown both the merits and the drawbacks of an open workplace.[33] One of the things we know for sure about this type of arrangement and its effect on communication is *visibility*. People in open cubicles placed along main routes of circulation or adjacent to atria reported almost 60 percent more face-to-face communication with team members than did those in lower-visibility locations. Another thing is *density*. More people populating an immediate work area meant that more face-to-face interactions took place. Workspaces with a high density yielded 84 percent more team-member communication than did workspace arrangements with a low density. If it's important that employees communicate and collaborate, managers need to consider visibility and density in workplace design.

Another workplace design element is the availability of adjustable work arrangements, equipment, and furnishings. As organizations have moved toward nontraditional work arrangements, the adjustability and customizability of employee workspace have become essential and influence organizational communication. For instance, one study found that adjustable partitions were associated with both greater perceived privacy and better communication.

As companies shrink workspaces to save money, managers need to ensure that the smaller and generally more open workspaces are useful and contribute to efficient and effective work.[34] By providing workspaces where employees can have some privacy and still have opportunities for collaborative efforts, both interpersonal and organizational communication can flourish and contribute to the organization's overall performance.

grapevine
The informal organizational communication network

open workplaces
Workplaces with few physical barriers and enclosures

LEARNING OUTCOME
Describe how technology affects managerial communication and organizations.

15.5

Information Technology and Communication

Technology is changing the way we live and work. Take the following four examples: A Nielsen survey done in August 2009 showed that 276.9 million people used e-mail across the United States, several European countries, Australia, and Brazil, up 21 percent from 2008. Japanese employees, managers, housewives, and teens use wireless interactive Web phones to send e-mail, surf the Web, swap photos, and play computer games. At DreamWorks Animation, a sophisticated videoconferencing system allows animators in three different locations to collaboratively edit films. Several thousand employees at Ford use cell phones exclusively at work. A recent survey of employees showed that 93 percent of those polled use the Internet at work. Employees at Lockheed Martin Corporation can access an internal social media site called Unity, which includes tools such as blogs, wikis, file-sharing, discussion forums, and social bookmarking.[35]

The world of communication isn't what it used to be! Although changing technology has been a significant source of the environmental uncertainty facing organizations, these same technological changes have enabled managers to coordinate employees' work efforts in more efficient and effective ways. Information technology (IT) now touches every aspect of almost every company's business. The implications for the ways managers communicate are profound.

How Technology Affects Managerial Communication

IT has radically changed the way organizational members communicate. For example, it has significantly improved a manager's ability to monitor individual and team performance, has allowed employees to have more complete information to make faster decisions, and has provided employees more opportunities to collaborate and share information. In addition, IT has made it possible for people in organizations to be fully accessible, any time, regardless of where they are. Employees don't have to be at their desk with their computer running to communicate with others in the organization. Two IT developments that are most significant for managerial communication are networked systems and wireless capabilities.

NETWORKED SYSTEMS. In a networked system, an organization's computers are linked. Organizational members can communicate with each other and tap into information whether they're down the hall, across town, or halfway across the world. We're not looking at the mechanics of how a network system works, but some of its communication applications include e-mail; instant messaging; social media such as blogs, wikis, and Twitter; webinars; voice-mail; fax; teleconferencing and videoconferencing; and intranets.

FUTURE VISION

The Working World In 2020

"Google's latest product combines communication, collaboration, and media-sharing into one insanely useful app. Is this the new e-mail?"[36]

In no area is the future more likely to change than in communication. Employees will rely on multiple channels of communication with heavy reliance on social networks, text messaging, and instant messaging. E-mail is likely to decline in popularity, largely because other channels are faster, more fluid, and more immediate.

Accurately forecasting tomorrow's technology is impossible. But several patterns seem to be evolving. For instance, the combining of functions in a single device is likely to result in employees having a single product that will combine phone, text messaging, Internet access, video camera, teleconferencing, and language translator. It will allow people to read proposals, legal papers, news, or almost any document digitally. It won't need a keyboard and will operate via voice commands. It's also likely not to be handheld but rather something akin to combining reading glasses and an earpiece. You'll read documents through the lenses of what look like normal reading glasses and the earpiece/microphone will make it hands-free.

Another outcome made possible by technology will be a significant decrease in business travel. Improvements in computer-mediated groupware will allow individuals to conduct meetings in environments that closely simulate face-to-face interactions.

WIRELESS CAPABILITIES. At Seattle-based Starbucks Corporation, district managers use mobile technology, giving them more time to spend in the company's stores. A company executive says, "These are the most important people in the company. Each has between 8 to 10 stores that he or she services. And while their primary job is outside of the office—and in those stores—they still need to be connected."[37] As this example shows, wireless communication technology has the ability to improve work for managers and employees. Even Internet access is available through Wi-Fi and WiMax hot spots, which are locations where users gain wireless access. The number of these hot spot locations continues to grow. With more than 50 million "mobile" workers in the United States, smartphones, notebook computers, computing devices such as iPad, and other pocket communication devices have generated whole new ways for managers to "keep in touch." And the number of mobile communication users keeps increasing.[38] Employees don't have to be at their desks to communicate with others in the organization. As wireless technology continues to improve, we'll see more organizational members using it as a way to collaborate and share information.

How Information Technology Affects Organizations

Monsanto Company wanted to raise the visibility of some projects and to make a stronger argument for bioengineered crops. Using a YouTube approach, the company sent camera crews to the Philippines, Australia, and other countries to film testimonials from farmers using Monsanto products to grow these crops. The clips were posted on a company Web site, which now attracts more than 15,000 visitors a month. The PR manager in charge of the project said, "When the people involved relate how their life has changed and you actually see it, it's more compelling."[39] That's the power of IT at work. Employees—working in teams or as individuals—need information to make decisions and to do their work. It's clear that technology *can* significantly affect the way that organizational members communicate, share information, and do their work.

Communication and the exchange of information among organizational members are no longer constrained by geography or time. Collaborative work efforts among widely dispersed individuals and teams, sharing of information, and integration of decisions and work throughout an entire organization have the potential to increase organizational efficiency and effectiveness. And while the economic benefits of IT are obvious, managers must not forget the psychological drawbacks.[40] For instance, what is the psychological cost of an employee always being accessible? Will it lead to increased pressure for employees to "check in" even during their off hours? How important is it for employees to separate their work and personal lives? These questions don't come with easy answers, and managers will have to face these and similar issues.

Communication Issues in Today's Organizations

15.6 LEARNING OUTCOME
Discuss contemporary issues in communication.

"Pulse lunches." That's what managers at Citibank's offices throughout Malaysia used to address pressing problems of declining customer loyalty and staff morale and increased employee turnover. By connecting with employees and listening to their concerns—that is, taking their "pulse"—during informal lunch settings, managers were able to make changes that boosted both customer loyalty and employee morale by more than 50 percent and reduced employee turnover to nearly zero.[41]

Being an effective communicator in today's organizations means being connected—not only to employees and customers, but to any of the organization's stakeholders. In this section, we examine five communication issues of particular significance to today's managers: managing communication in an Internet world, managing the organization's knowledge resources, communicating with customers, getting employee input, and communicating ethically.

Managing Communication in an Internet World

Lars Dalgaard, founder and chief executive of SuccessFactors, a human resource management software company, recently sent an e-mail to his employees banning in-house e-mail for a week. His goal? Getting employees to "authentically address issues amongst each

other."[42] And he's not alone. Other companies including U.S. Cellular have tried the same thing. As we discussed earlier, e-mail can consume employees, but it's not always easy for them to let go of it, even when they know it can be "intexticating." But e-mail is only one communication challenge in this Internet world. A recent survey found that 20 percent of employees at large companies say they contribute regularly to blogs, social networks, wikis, and other Web services.[43] Managers are learning, the hard way sometimes, that all this new technology has created special communication challenges. The two main ones are (1) legal and security issues, and (2) lack of personal interaction.

LEGAL AND SECURITY ISSUES. Chevron paid $2.2 million to settle a sexual-harassment lawsuit stemming from inappropriate jokes being sent by employees over company e-mail. U.K. firm Norwich Union had to pay £450,000 in an out-of-court settlement after an employee sent an e-mail stating that their competitor Western Provident Association was experiencing financial difficulties. Whole Foods Market was investigated by federal regulators and its board after CEO John P. Mackey used a pseudonym to post comments on a blog attacking the company's rival Wild Oats Markets.[44]

Although e-mail, blogs, tweets, and other forms of online communication are quick and easy ways to communicate, managers need to be aware of potential legal problems from inappropriate usage. Electronic information is potentially admissible in court. For instance, during the Enron trial, prosecutors entered into evidence e-mails and other documents they say showed that the defendants defrauded investors. Says one expert, "Today, e-mail and instant messaging are the electronic equivalent of DNA evidence."[45] But legal problems aren't the only issue, security concerns are as well.

A survey addressing outbound e-mail and content security found that 26 percent of the companies surveyed saw their businesses affected by the exposure of sensitive or embarrassing information.[46] Managers need to insure that confidential information is kept confidential. Employee e-mails and blogs should not communicate—inadvertently or purposely—proprietary information. Corporate computer and e-mail systems should be protected against hackers (people who try to gain unauthorized access) and spam (electronic junk mail). These serious issues must be addressed if the benefits of communication technology are to be realized.

PERSONAL INTERACTION. It may be called social media, but another communication challenge posed by the Internet age we live and work in is the lack of personal interaction.[47] Even when two people are communicating face-to-face, understanding is not always achieved. However, it can be especially challenging to achieve understanding and collaborate on getting work done when communication takes place in a virtual environment. In response, some companies have banned e-mail on certain days, as we saw earlier. Others have simply encouraged employees to collaborate more in-person. Yet, in some situations and at certain times, personal interaction isn't physically possible—your colleagues work across the continent or even across the globe. In those instances, real-time collaboration software (such as private workplace wikis, blogs, instant messengers, and other types of groupware) may be a better communication choice than sending an e-mail and waiting for a response.[48] Instead of fighting it, other companies are encouraging employees to utilize the power of social networks to collaborate on work and to build strong connections. This form of interaction is especially appealing to younger workers who are comfortable with this communication medium. Some companies have gone as far as creating their own in-house social networks. For instance, employees at Starcom MediaVest Group tap into SMG Connected to find colleague profiles that outline their jobs, list the brands they admire, and describe their values. A company vice president says, "Giving our employees a way to connect over the Internet around the world made sense because they were doing it anyway."[49]

Managing the Organization's Knowledge Resources

Kara Johnson is a materials expert at product design firm IDEO. To make finding the right materials easier, she's building a master library of samples linked to a database that explains their properties and manufacturing processes.[51] What Johnson is doing is managing knowledge and

by the numbers[50]

25 percent of employees say they withhold feedback on routine problems to avoid wasting their time.

47 percent of Wi-Fi users say they can wait one hour or less before getting "antsy" about checking e-mail, instant messaging, and social networking sites.

64 seconds is how long it takes to retrieve your train of thought after an e-mail interruption.

69 percent of executives say they're sending out more messages than ever to employees.

37 percent of employees say they're receiving more messages from executives.

54 percent of employees say their company prohibits employees from visiting social networking sites while at work.

42 percent of employees who have received employer-provided wireless devices feel they are expected to always be available.

28 percent of a day is how much the average worker loses to interruptions.

making it easier for others at IDEO to learn and benefit from her knowledge. That's what today's managers need to do with the organization's knowledge resources—make it easy for employees to communicate and share their knowledge so they can learn from each other ways to do their jobs more effectively and efficiently. One way organizations can do this is to build online information databases that employees can access. For example, William Wrigley Jr. Co. launched an interactive Web site that allows sales agents to access marketing data and other product information. The sales agents can question company experts about products or search an online knowledge bank. In its first year, Wrigley estimates that the site cut research time of the sales force by 15,000 hours, making them more efficient and effective.[52]

In addition to online information databases for sharing knowledge, companies could create communities of practice, a concept that we introduced in Chapter 11 as a type of internal collaboration. To make these communities of practice work, however, it's important to maintain strong human interactions through communication using such essential tools as interactive Web sites, e-mail, and videoconferencing. In addition, these groups face the same communication problems that individuals face—filtering, emotions, defensiveness, overdocumentation, and so forth. However, groups can resolve these issues by focusing on the same suggestions we discussed earlier.

The Role of Communication in Customer Service

You've been a customer many times; in fact, you probably find yourself in a customer service encounter several times a day. So what does this have to do with communication? As it turns out, a lot! *What* communication takes place and *how* it takes place can have a significant impact on a customer's satisfaction with the service and the likelihood of being a repeat customer. Managers in service organizations need to make sure that employees who interact with customers are communicating appropriately and effectively with those customers. How? By first recognizing the three components in any service delivery process: the customer, the service organization, and the individual service provider.[53] Each plays a role in whether communication is working. Obviously, managers don't have a lot of control over what or how the customer communicates, but they can influence the other two.

An organization with a strong service culture already values taking care of customers—finding out what their needs are, meeting those needs, and following up to make sure that their needs were met satisfactorily. Each of these activities involves communication, whether face-to-face, by phone or e-mail, or through other channels. In addition, communication is part of the specific customer service strategies the organization pursues. One strategy that many service organizations use is personalization. For instance, at Ritz-Carlton Hotels, customers are provided with more than a clean bed and room. Customers who have stayed at a location previously and indicated that certain items are important to them—such as extra pillows, hot chocolate, or a certain brand of shampoo—will find those items waiting in their room at arrival. The hotel's database allows service to be personalized to customers' expectations. In addition, all employees are asked to communicate information related to service provision. For instance, if a room attendant overhears guests talking about celebrating an anniversary,

Communication is an important part of customer service strategy at Southwest Airlines. With a strong service culture that values taking care of passengers, the airline trains its service providers to communicate appropriately and effectively with customers. In helping a passenger rebook a flight after his was cancelled due to bad weather, the Southwest customer service agent shown here finds out what the customer's needs are, how she can meet those needs, and then follows through to make sure his needs were met satisfactorily. Her ability to listen actively and communicate effectively greatly influences the customer's satisfaction with Southwest Airlines and the likelihood of being a repeat customer.

he or she is supposed to relay the information so something special can be done.[54] Communication plays an important role in the hotel's customer personalization strategy.

Communication also is important to the individual service provider or contact employee. The quality of the interpersonal interaction between the customer and that contact employee does influence customer satisfaction, especially when the service encounter isn't up to expectations.[55] People on the front line involved with those "critical service encounters" are often the first to hear about or notice service failures or breakdowns. They must decide *how* and *what* to communicate during these instances. Their ability to listen actively and communicate appropriately with the customer goes a long way in whether the situation is resolved to the customer's satisfaction or spirals out of control. Another important communication concern for the individual service provider is making sure that he or she has the information needed to deal with customers efficiently and effectively. If the service provider doesn't personally have the information, some way needs to be devised to get the information easily and promptly.[56]

Getting Employee Input

Nokia recently set up an intranet soapbox known as Blog-Hub, opening it up to employee bloggers around the world. There, employees have griped about their employer, but rather than shutting it down, Nokia managers want them to "fire away." They feel that Nokia's growth and success can be attributed to a "history of encouraging employees to say whatever's on their minds, with faith that smarter ideas will result."[57]

In today's challenging environment, companies need to get input from their employees. Have you ever worked somewhere that had an employee suggestion box? When an employee had an idea about a new way of doing something—such as reducing costs, improving delivery time, and so forth—it went into the suggestion box where it usually sat until someone decided to empty the box. Businesspeople frequently joked about the suggestion box and cartoonists lambasted the futility of putting ideas in the employee suggestion box. And unfortunately, this attitude about suggestion boxes still persists in many organizations, and it shouldn't. Managers do business in a world today where you can't afford to ignore such potentially valuable information. Exhibit 15-5 lists some suggestions for letting employees know that their opinions matter.

Communicating Ethically

It's particularly important today that a company's communication efforts be ethical. **Ethical communication** "includes all relevant information, is true in every sense, and is not deceptive in any way."[58] On the other hand, unethical communication often distorts the truth or manipulates audiences. What are some ways that companies communicate unethically? It could be by omitting essential information. For instance, not telling employees that an impending merger is going to mean some of them will lose their jobs is unethical. It's unethical to plagiarize, which is "presenting someone else's words or other creative product as your own."[59] It would also be unethical communication to selectively misquote, misrepresent numbers, distort visuals, and fail to respect privacy or information security needs. For instance, although British Petroleum attempted to communicate openly and truthfully about

EXHIBIT 15-5

How to Let Employees Know Their Input Matters

- *Hold town-hall meetings* where information is shared and input solicited.
- *Provide information* about what's going on, good and bad.
- *Invest in training* so that employees see how they impact the customer experience.
- *Analyze problems together*—managers and employees.
- *Make it easy* for employees to give input by setting up different ways for them to do so (online, suggestion box, preprinted cards, and so forth).

ethical communication
Communication that includes all relevant information, is true in every sense, and is not deceptive in any way

the Gulf Coast oil spill in the summer of 2010, the public still felt that much of the company's communication contained some unethical elements.

So how can managers encourage ethical communications? One thing is to "establish clear guidelines for ethical behavior, including ethical business communication.[60] In a global survey by the International Association of Business Communicators, 70 percent of communication professionals said their companies clearly define what is considered ethical and unethical behavior."[61] If no clear guidelines exist, it's important to answer the following questions:

- Has the situation been defined fairly and accurately?
- Why is the message being communicated?
- How will the people who may be affected by the message or who receive the message be impacted?
- Does the message help achieve the greatest possible good while minimizing possible harm?
- Will this decision that appears to be ethical now seem so in the future?
- How comfortable are you with your communication effort? What would a person you admire think of it?[62]

Remember that as a manager, you have a responsibility to think through your communication choices and the consequences of those choices. If you always operate with these two things in mind, you're likely to have ethical communication.

Let's Get Real:

My Response *to A Manager's Dilemma, page 404*

Twitter has become a revolutionary tool for communication. It allows individuals and organizations to foster connections and an intimacy with others on a scale that would have not been possible just a few years ago. It also allows for an unparalleled immediacy in sharing information. In this example, Twitter allows fans and potential recruits to have unfettered access to their college team. The closeness Twitter develops between the organizations its recruits and its fans will lead to increased loyalty and excitement. These developments are all positive; however, these kinds of technologies can be a double-edged sword. In most cases, before organizations share information, information needs to be scrutinized and peer reviewed as to its suitability. The immediacy Twitter provides does not allow for this level of scrutiny, thus increasing the possibility that incorrect or potentially detrimental information will be shared, causing negative repercussions for an organization. In the case of Les Miles he might share sensitive information or commit recruiting violations if his "tweets" are not adequately censored.

In this example my advice would be to create a holding period for Les Miles's tweets. This holding period could be a short time frame in which the content could be reviewed by someone in the organization as to its appropriateness before it is shared. Although some immediacy would be lost, it would allow the organization to continue to give its fans and recruits increased access while insulating the organization from potentially embarrassing and otherwise negative situations.

What Would You Do?

Glenn A. Jones
Oral Care Consultant/
Technology Trainer
Colgate Oral Pharmaceuticals
New York, NY

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 15.1

Define the nature and function of communication.

Communication is the transfer and understanding of meaning. Interpersonal communication is communication between two or more people. Organizational communication includes all the patterns, networks, and systems of communication within an organization.

The functions of communication include controlling employee behavior, motivating employees, providing a release for emotional expression of feelings and fulfillment of social needs, and providing information.

LEARNING OUTCOME 15.2

Compare and contrast methods of interpersonal communication.

The communication process contains seven elements. First, a *sender* has a message. A *message* is a purpose to be conveyed. *Encoding* converts a message into symbols. A *channel* is the medium a message travels along. *Decoding* happens when the *receiver* retranslates a sender's message. Finally, *feedback* occurs.

Managers can evaluate the various communication methods according to their feedback, complexity capacity, breadth potential, confidentiality, encoding ease, decoding ease, time-space constraint, cost, interpersonal warmth, formality, scanability, and time of consumption.

The communication methods include face-to-face, telephone, group meetings, formal presentations, memos, traditional mail, fax, employee publications, bulletin boards, other company publications, audio- and videotapes, hotlines, e-mail, computer conferencing, voice mail, teleconferences, and videoconferences.

LEARNING OUTCOME 15.3

Identify barriers to effective interpersonal communication and how to overcome them.

The barriers to effective communication include filtering, emotions, information overload, defensiveness, language, and national culture.

Managers can overcome these barriers by using feedback, simplifying language, listening actively, constraining emotions, and watching for nonverbal clues.

LEARNING OUTCOME 15.4

Explain how communication can flow most effectively in organizations.

Formal communication is communication that takes place within prescribed organizational work arrangements. Informal communication is not defined by the organization's structural hierarchy.

Communication in an organization can flow downward, upward, laterally, and diagonally.

The three communication networks include the chain, in which communication flows according to the formal chain of command; the wheel, in which communication flows between a clearly identifiable and strong leader and others in a work team; and the all-channel, in which communication flows freely among all members of a work team.

Managers should manage the grapevine as an important information network. The negative consequences of rumors can be minimized by communicating openly, fully, and honestly with employees.

Workplace design also influences organizational communication. That design should support four types of employee work: focused work, collaboration, learning, and socialization. In each of these circumstances, communication must be considered.

Describe how technology affects managerial communication and organizations.

LEARNING OUTCOME 15.5

Technology has radically changed the way organizational members communicate. It improves a manager's ability to monitor performance; it gives employees more complete information to make faster decisions; it has provided employees more opportunities to collaborate and share information; and it has made it possible for people to be fully accessible, anytime anywhere.

IT affects organizations by influencing the way that organizational members communicate, share information, and do their work.

Discuss contemporary issues in communication.

LEARNING OUTCOME 15.6

The two main challenges of managing communication in an Internet world are the legal and security issues and the lack of personal interaction.

Organizations can manage knowledge by making it easy for employees to communicate and share their knowledge, which can help them learn from each other ways to do their jobs more effectively and efficiently. One way is through online information databases and another way is through creating communities of practice.

Communicating with customers is an important managerial issue since *what* communication takes place and *how* it takes place can significantly affect a customer's satisfaction with the service and the likelihood of being a repeat customer.

It's important for organizations to get input from their employees. Such potentially valuable information should not be ignored.

Finally, a company's communication efforts need to be ethical. Ethical communication can be encouraged through clear guidelines and through answering questions that force a communicator to think through the communication choices made and the consequences of those choices.

To check your understanding of learning outcomes 15.1 – 15.6 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Define communication, interpersonal communication, and organizational communication. Why isn't effective communication synonymous with *agreement?*
2. What are the functions of communication?
3. Explain the components in the communication process.
4. What are the various communication methods managers can use? What criteria can managers use to evaluate those communication methods?
5. What are the barriers to effective communication? How can those barriers be overcome?
6. Contrast formal and informal communication.
7. Explain communication flow, the three common communication networks, and how managers should handle the grapevine.
8. How does technology affect managerial communication? How does it affect organizations?
9. Discuss the five contemporary communication issues facing managers.
10. Which do you think is more important for a manager: speaking accurately or listening actively? Why?

ETHICS DILEMMA

Social networking Web sites can be fun. Staying in touch with old friends or even family is one of the pleasures of joining. However, what happens when colleagues or even your boss want to "friend" you? Experts say that you should proceed with caution.[63] What do you think? Is it okay to provide people you know in a professional sense a "window into your personal life?" What ethical issues might arise in such a situation?

SKILLS EXERCISE

Developing Your Active Listening Skill

About the Skill

Active listening requires you to concentrate on what is being said. It's more than just hearing the words. It involves a concerted effort to understand and interpret the speaker's message.

Steps in Practicing the Skill

1. **Make eye contact.** How do you feel when somebody doesn't look at you when you're speaking? If you're like most people, you're likely to interpret this behavior as aloofness or disinterest. Making eye contact with the speaker focuses your attention, reduces the likelihood that you will become distracted, and encourages the speaker.
2. **Exhibit affirmative nods and appropriate facial expressions.** The effective listener shows interest in what is being said through nonverbal signals. Affirmative nods and appropriate facial expressions, when added to good eye contact, convey to the speaker that you're listening.
3. **Avoid distracting actions or gestures that suggest boredom.** In addition to showing interest, you must avoid actions that suggest that your mind is somewhere else. When listening, don't look at your watch, shuffle papers, play with your pencil, or engage in similar distractions. They make the speaker feel that you're bored or disinterested, or indicate that you aren't fully attentive.
4. **Ask questions.** The critical listener analyzes what he or she hears and asks questions. This behavior provides clarification, ensures understanding, and assures the speaker that you're listening.
5. **Paraphrase what's been said.** The effective listener uses phrases such as "What I hear you saying is …" or "Do you mean …?" Paraphrasing is an excellent control device to check on whether you're listening carefully and to verify that what you heard is accurate.
6. **Avoid interrupting the speaker.** Let the speaker complete his or her thought before you try to respond. Don't try to second-guess where the speaker's thoughts are going. When the speaker is finished, you'll know it.
7. **Stay motivated to listen.** Most of us would rather express our own ideas than listen to what someone else says. Talking might be more fun and silence might be uncomfortable, but you can't talk and listen at the same time. The good listener recognizes this fact and doesn't overtalk.
8. **Make smooth transitions between the roles of speaker and listener.** The effective listener makes transitions smoothly from speaker to listener and back to speaker. From a listening perspective, this means concentrating on what a speaker has to say and practicing not thinking about what you're going to say as soon as you get your chance.

Practicing the Skill

Ask a friend to tell you about his or her day and listen without interrupting. When your friend has finished speaking, ask two or three questions if needed to obtain more clarity and detail. Listen carefully to the answers. Now summarize your friend's day in no more than five sentences.

How well did you do? Let your friend rate the accuracy of your paraphrase (and try not to interrupt).

WORKING TOGETHER

Team Exercise

We've all watched and laughed at the oddball videos on YouTube and other online video sites. But what about using online video for work purposes?[64] What uses do you see for online video at work? What would be the advantages and drawbacks of using online video?

Form small groups of three to four individuals. Your team's task is to look at these issues. Answer the questions and be prepared to share your answers with the class.

MY TURN TO BE A MANAGER

- Research the characteristics of a good communicator. Keeping these characteristics in mind, practice being a good communicator—both as a sender and a listener.
- For one day, keep track of the types of communication you use (see Exhibit 15-2 for a list of various types). Which do you use most? Least? Were your choices of communication methods effective? Why or why not? Could they have been improved? How?
- For one day, track nonverbal communication that you notice in others. What types did you observe? Was the nonverbal communication always consistent with the verbal communication taking place? Describe.
- Research new types of IT devices. Write a report describing these devices (at least three) and their applicability to employees and organizations. Be sure to look at both the positive and negative aspects.
- Survey five different managers for their advice on being a good communicator. Put this information in a bulleted list format and be prepared to present it in class.
- Steve's and Mary's recommended readings: Phillip G. Clampitt, *Communicating for Managerial Effectiveness,* 4th ed. (Sage Publications, 2009); John Baldoni, *Great Communication Secrets of Great Leaders* (McGraw-Hill, 2003); Robert Mai and Alan Akerson, *The Leader as Communicator* (AMACOM, 2003); Boyd Clarke, *The Leader's Voice: How Communication Can Inspire Action and Get Results!* (Select Books, 2002); Jo-Ellan Dimitrius and Mark Mazzarella, *Reading People* (Random House, 1998).
- Survey 10 office workers. Ask them: (1) the number of e-mail messages they receive daily, on average; (2) how many times in one day they check their e-mail; and (3) if they think a ban on e-mail messages one day a week would be a good idea and why or why not. Compile this information into a report.
- Pick one of the five topics addressed in the section on Communication Issues in Today's Organizations and do some additional research. Put your findings in a bulleted list and be prepared to discuss in class. Be sure to cite your sources!
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What's My Face-to-Face Communication Style? How Good Are My Listening Skills? How Good Am I at Giving Performance Feedback? Am I a Gossip? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Gossip Girls

Sixty percent. That's the percentage of respondents in a recent employee survey who said that gossip was their biggest pet peeve about their jobs.[65] Most gossip centers around the workplace and the personal lives of coworkers. How often have you gossiped at work … either as a sender or a receiver? Although you may think workplace gossip is harmless, it can have some pretty serious consequences. First, spreading rumors can damage morale and increase anxiety. Secondly, it can hamper productivity and affect performance. And it can lead to something you might not even have considered, as it did for four former employees of the town of Hooksett, New Hampshire. Fired by the city council for gossiping about their boss, they learned the hard way that gossip can cost you your job.

The longtime employees were fired because one of the women had used derogatory terms to describe the town administrator and because

Gossiping at work isn't as harmless as some may think and can result in serious consequences, such as damaged morale, increased anxiety, lost productivity, and poor performance. As the women shown here learned, it can cost you your job.

all of them had discussed a rumor that he was having an affair with a female subordinate. All four of the women acknowledged feeling resentment toward the woman, who worked in a specially created position and was paid more than two of the employees, despite having less experience and seniority.

Despite an appeal of their dismissal by the four employees, the Hooksett council didn't budge and stated, "These employees do not represent the best interests of the town of Hooksett and the false rumors, gossip and derogatory statements have contributed to a negative working environment and malcontent among their fellow employees." Despite national media attention and a petition signed by 419 residents asking for the women to be reinstated, the city council didn't waver on its decision. An attorney for the four women said that his clients were "legitimately questioning the conduct of their supervisor, and whether the female subordinate was getting preferential treatment. It almost cheapens it to call it gossip. It might have been idle, not particularly thoughtful, talk. But there was no harm intended."

Although the four women represented nearly 50 years of combined service to the city and all had positive performance reviews, the town council believed that the women's actions were "insubordinate" and "dishonest." All four received a settlement for being fired, which cost the town a total of $330,000. The settlement agreement also stipulated, however, that two of the women can never apply for a job with the town again.

Discussion Questions

1. What do you think of this situation? Do you agree with the town council's decision about the firing and refusal to reinstate the employees?
2. As was stated in the case, a recent survey showed that 60 percent of the respondents indicated that the biggest pet peeve they have about their jobs is workplace gossip. Research the topic of office gossip/office rumors. Is office gossip always harmful? Discuss. Could it ever be useful to managers?
3. In retrospect, what could these four women have done differently?
4. What implications can you see for managers and communication from this story?

CASE APPLICATION 2

Delivery Disaster

When two Domino's Pizza employees filmed a gross prank in the kitchen of the restaurant in Conover, North Carolina, the company suddenly had a major public relations crisis on its hands.[66] The video ended up posted on YouTube and other sites and showed a Domino's employee preparing "sandwiches for delivery while putting cheese up his nose, nasal mucus on the sandwiches, and violating other health-code standards," with another employee providing narration. By the next day, over a million disgusted people had viewed the video and discussion about Domino's had spread throughout Twitter and Google.

As Domino's quickly realized, social media has the power to take tiny incidents and turn them into marketing crises. A company spokesperson said, "We got blindsided by two idiots with a video camera and an awful idea." When the company first learned about the video, executives decided not to respond aggressively, hoping the controversy would quiet down. What they missed, though, was the "perpetual mushroom effect of viral sensations." The chief marketing officer of a social media marketing firm said, "If you think it's not going to spread, that's when it gets bigger." And as Domino's discovered, it did. In just a matter of days, Domino's reputation was damaged. Customers' perception of its quality went from positive to negative. One brand expert said, "It's graphic enough in the video, and it's created enough of a stir, that it gives people a little pause."

So what happened to the two employees? Although they told Domino's executives they never actually delivered the tainted food, they were fired and charged with a felony. And Domino's posted its own video featuring its top manager addressing the incident on YouTube not long after it occurred.

Discussion Questions

1. Beyond its being vulgar and disgusting, what do you think of this situation from the perspective of managing communications?
2. Why do you think Domino's executives took a wait-and-see attitude? Why was this response a problem?
3. How could this type of communication problem be prevented at other Domino's Pizza restaurants?
4. Do incidents like this one and the possibility of them happening anywhere, anytime, mean that all forms of social media should be banned from workplaces? What are the implications for policies regarding communication technology? Discuss.

16 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Aisha Warren
Retail Store Manager
Dots, LLC
Warren, MI

MY JOB:
I am a retail clothing store manager for Dots, LLC. I am responsible for leading, motivating, and coaching a team of approximately 10 employees. I am focused on customer service and sales results.

BEST PART OF MY JOB:
The relationships that I have built with customers and staff members. I am amazed by the many follow-up visits and phone calls I receive from past staff members and customers. Many have expressed their gratitude for what I have taught them about management, sales, and fashion.

Motivating Employees

LEARNING OUTCOMES

16.1 **Define** motivation. *page 430*

16.2 **Compare** and contrast early theories of motivation. *page 431*

16.3 **Compare** and contrast contemporary theories of motivation. *page 435*

16.4 **Discuss** current issues in motivation. *page 445*

WORST PART OF MY JOB:
The feeling of defeat when my team and I do not meet our sales goal. Achieving our sales goal can be difficult. The key is to motivate team members with incentives that keep them pushing to achieve the goal.

BEST MANAGEMENT ADVICE EVER RECEIVED:
Be a leader and not a boss. It is important to set the tone for your expectations and lead by example. This advice has made me successful.

A Manager's Dilemma

Ministers. Customers. Embassies. These are the interesting "names" given to employees, customers, and retailers at gourmet tea company Republic of Tea.[1] Like many companies, big and small, Republic of Tea struggled through the economic recession. As the crisis intensified, "CEO Ron Rubin sat in his office and asked himself, What more can we do to help our ministers?" The answer was as unexpected as the question that prompted it.

Within weeks, the company rolled out a program called "Healthy Ministry, dedicated to improving the health, physical fitness and well-being of its 100 employees." At the company's Novato, California, headquarters and its Nashville, Illinois, warehouse, employees now have access to a full-time nutritionist, on-site health screenings, and a $500 credit that can be used for gym memberships or health plans such as Weight Watchers. With a workday walking program,employees are encouraged to take 10- to 15-minute walks. Some might consider Rubin's ideas silly, but he believes that if you take care of your employees, they will take care of your business. Although Ron Rubin has tried to make Republic of Tea a better place to work for his employees during a challenging period, what other things could he do?

What Would You Do?

Successful managers, like Ron Rubin, understand that what motivates them personally may have little or no effect on others. Just because *you're* motivated by being part of a cohesive work team, don't assume everyone is. Or just because *you're* motivated by your job doesn't mean that everyone is. Effective managers who get employees to put forth maximum effort know how and why those employees are motivated and tailor motivational practices to satisfy their needs and wants.

LEARNING OUTCOME
Define motivation.

16.1

What Is Motivation?

According to LinkedIn Corporation, a Web site that provides networking for more than 65 million professionals, "ninja" has far outpaced the growth of other trendy job titles.[2] Although most individuals using that title are computer programmers—who attack writing code like a ninja, with tons of tools available to do battle—the term also has been used to describe expertise in everything from customer service to furniture movers. For instance, in Salt Lake City, one business owner sells the services of "ninja workers" who will do everything from hauling junk to personal security to house-sitting. And at Bonobos, Inc., a New York City start-up that makes and sells men's apparel online, customer-service employees are also called ninjas. Why would a job title matter to employees? Many people, especially the young and young-at-heart, like vivid and unusual titles that celebrate their hard work. And ninja, like other popular job titles before it (guru, evangelist, or even sandwich artist) shows employees that their efforts aren't plain and ordinary, but are appreciated.

Would you ever have thought that a job title might be motivating? Have you ever thought about to how to motivate someone? It's an important topic in management and researchers have long been interested in it.[3] All managers need to be able to motivate their employees, which first requires understanding what motivation is. Let's begin by pointing out what motivation is not. Why? Because many people incorrectly view motivation as a personal trait; that is, they think some people are motivated and others aren't. Our knowledge of motivation tells us that we can't label people that way because individuals differ in motivational drive and their overall motivation varies from situation to situation. For instance, you're probably more motivated in some classes than in others.

Motivation refers to the process by which a person's efforts are energized, directed, and sustained toward attaining a goal.[4] This definition has three key elements: energy, direction, and persistence.[5]

The *energy* element is a measure of intensity, drive, and vigor. A motivated person puts forth effort and works hard. However, the quality of the effort must be considered as well as its intensity. High levels of effort don't necessarily lead to favorable job performance unless the effort is channeled in a *direction* that benefits the organization. Effort that's directed toward, and consistent with, organizational goals is the kind of effort we want from employees. Finally, motivation includes a *persistence* dimension. We want employees to persist in putting forth effort to achieve those goals.

Motivating high levels of employee performance is an important organizational concern and managers keep looking for answers. For instance, a Gallup poll found that a large majority of U.S. employees—some 73 percent—are not excited about their work. As the researchers stated, "These employees have essentially 'checked out.' They're sleepwalking through their workday, putting time, but not energy or passion, into their work."[6] It's no wonder then that both managers and academics want to understand and explain employee motivation.

Motivating employees is important because *it contributes to positive team morale.*

Early Theories of Motivation

16.2 LEARNING OUTCOME
Compare and contrast early theories of motivation.

We begin by looking at four early motivation theories: *Maslow's hierarchy of needs*, *McGregor's theories X and Y*, *Herzberg's two-factor theory*, and *McClelland's three-needs theory*. Although more valid explanations of motivation have been developed, these early theories are important because they represent the foundation from which contemporary motivation theories were developed and because many practicing managers still use them.

Maslow's Hierarchy of Needs Theory

Having a car to get to work is a necessity for many workers. When two crucial employees of Vurv Technology in Jacksonville, Florida, had trouble getting to work, owner Derek Mercer decided to buy two inexpensive used cars for the employees. He said, "I felt that they were good employees and a valuable asset to the company." One of the employees who got

Intel managers understand employee needs and their impact on motivation. The company helps satisfy the social needs of its young workforce in Vietnam, where more than half of the population is under the age of 25. Intel provides opportunities for its young employees, who love American culture, to have fun with their coworkers during work breaks as ways to satisfy their needs for belongingness and friendship. Recognizing that its employees are eager to learn western ways of doing business and have a strong drive for self-development and achievement, Intel offers them training programs for personal growth and career development to satisfy their esteem and self-actualization needs.

motivation
The process by which a person's efforts are energized, directed, and sustained toward attaining a goal

one of the cars said, "It wasn't the nicest car. It wasn't the prettiest car. But boy did my overwhelming feeling of dread go from that to enlightenment. The 80-hour weeks we worked after that never meant anything. It was give and take. I was giving and the company was definitely giving back."[7] Derek Mercer understands employee needs and their impact on motivation. The first motivation theory we're going to look at addresses employee needs.

The best-known theory of motivation is probably Abraham Maslow's **hierarchy of needs theory**.[8] Maslow was a psychologist who proposed that within every person is a hierarchy of five needs:

1. **Physiological needs**: A person's needs for food, drink, shelter, sex, and other physical requirements.
2. **Safety needs**: A person's needs for security and protection from physical and emotional harm, as well as assurance that physical needs will continue to be met.
3. **Social needs**: A person's needs for affection, belongingness, acceptance, and friendship.
4. **Esteem needs**: A person's needs for internal esteem factors such as self-respect, autonomy, and achievement and external esteem factors such as status, recognition, and attention.
5. **Self-actualization needs**: A person's needs for growth, achieving one's potential, and self-fulfillment; the drive to become what one is capable of becoming.

Maslow argued that each level in the needs hierarchy must be substantially satisfied before the next need becomes dominant. An individual moves up the needs hierarchy from one level to the next. (See Exhibit 16-1.) In addition, Maslow separated the five needs into higher and lower levels. Physiological and safety needs were considered *lower-order needs*; social, esteem, and self-actualization needs were considered *higher-order needs.* Lower-order needs are predominantly satisfied externally while higher-order needs are satisfied internally.

How does Maslow's theory explain motivation? Managers using Maslow's hierarchy to motivate employees do things to satisfy employees' needs. But the theory also says that once a need is substantially satisfied, an individual is no longer motivated to satisfy that need. Therefore, to motivate someone, you need to understand what need level that person is on in the hierarchy and focus on satisfying needs at or above that level.

Maslow's need theory was widely recognized during the 1960s and 1970s, especially among practicing managers, probably because it was intuitively logical and easy to understand. But Maslow provided no empirical support for his theory, and several studies that sought to validate it could not.[9]

McGregor's Theory X and Theory Y

Andy Grove, cofounder of Intel Corporation and now a senior advisor to the company, was known for being open with his employees. However, he was also known for his tendency to yell. Intel's current CEO, Paul Otellini said, "When Andy was yelling at you, it wasn't because he didn't care about you. He was yelling at you because he wanted you to do better."[10] Although managers like Andy Grove want their employees to do better, that approach might not have been the best way to motivate employees as McGregor's Theory X and Theory Y suggest.

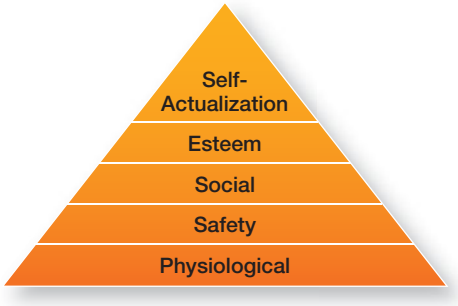


EXHIBIT 16-1

Maslow's Hierarchy of Needs

Source: Abraham H. Maslow, Robert D. Frager, Robert D., and James Fadiman, *Motivation and Personality*, 3rd Edition, © 1987. Adapted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

Douglas McGregor is best known for proposing two assumptions about human nature: Theory X and Theory Y.[11] Very simply, **Theory X** is a negative view of people that assumes workers have little ambition, dislike work, want to avoid responsibility, and need to be closely controlled to work effectively. **Theory Y** is a positive view that assumes employees enjoy work, seek out and accept responsibility, and exercise self-direction. McGregor believed that Theory Y assumptions should guide management practice and proposed that participation in decision making, responsible and challenging jobs, and good group relations would maximize employee motivation.

Unfortunately, no evidence confirms that either set of assumptions is valid or that being a Theory Y manager is the only way to motivate employees. For instance, Jen-Hsun Huang, founder of Nvidia Corporation, an innovative and successful microchip manufacturer, has been known to use both reassuring hugs and tough love in motivating employees. But he has little tolerance for screw-ups. "In one legendary meeting, he's said to have ripped into a project team for its tendency to repeat mistakes. 'Do you suck?' he asked the stunned employees. 'Because if you suck, just get up and say you suck.'"[12] His message, delivered in classic Theory X style, was that if you need help, ask for it. It's a harsh approach, but in this case, it worked.

Herzberg's Two-Factor Theory

Frederick Herzberg's **two-factor theory** (also called motivation-hygiene theory) proposes that intrinsic factors are related to job satisfaction, while extrinsic factors are associated with job dissatisfaction.[13] Herzberg wanted to know when people felt exceptionally good (satisfied) or bad (dissatisfied) about their jobs. (These findings are shown in Exhibit 16-2.) He concluded that the replies people gave when they felt good about their jobs were significantly different from the replies they gave when they felt badly. Certain characteristics were consistently related to job satisfaction (factors on the left side of the exhibit), and others to job

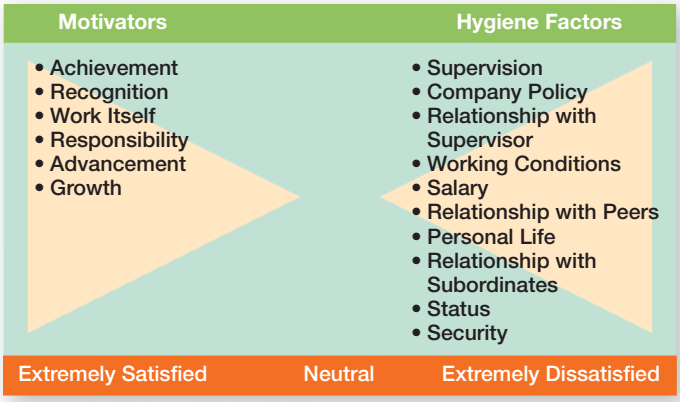


EXHIBIT 16-2

Herzberg's Two Factor Theory

Source: Based on F. Herzberg, B. Mausner, and B. B. Snyderman, *The Motivation to Work* (New York: John Wiley, 1959).

hierarchy of needs theory
Maslow's theory that human needs—physiological, safety, social, esteem, and self-actualization—form a sort of hierarchy

physiological needs
A person's needs for food, drink, shelter, sexual satisfaction, and other physical needs

safety needs
A person's needs for security and protection from physical and emotional harm

social needs
A person's needs for affection, belongingness, acceptance, and friendship

esteem needs
A person's needs for internal factors such as self-respect, autonomy, and achievement, and external factors such as status, recognition, and attention

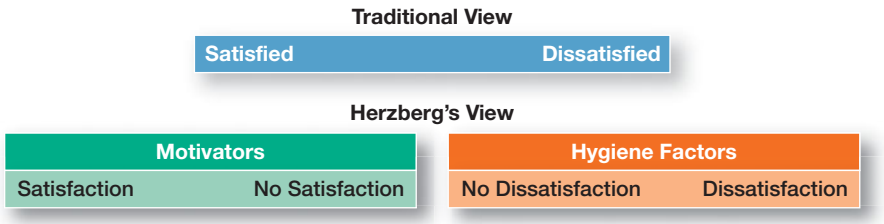
self-actualization needs
A person's need to become what he or she is capable of becoming.

Theory X
The assumption that employees dislike work, are lazy, avoid responsibility, and must be coerced to perform

Theory Y
The assumption that employees are creative, enjoy work, seek responsibility, and can exercise self-direction

two-factor theory (motivation-hygiene theory)
The motivation theory that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction

EXHIBIT 16-3
Contrasting Views of Satisfaction–Dissatisfaction



dissatisfaction (factors on the right side). When people felt good about their work, they tended to cite intrinsic factors arising from the job itself such as achievement, recognition, and responsibility. On the other hand, when they were dissatisfied, they tended to cite extrinsic factors arising from the job context such as company policy and administration, supervision, interpersonal relationships, and working conditions.

In addition, Herzberg believed that the data suggested that the opposite of satisfaction was not dissatisfaction, as traditionally had been believed. Removing dissatisfying characteristics from a job would not necessarily make that job more satisfying (or motivating). As shown in Exhibit 16-3, Herzberg proposed that a dual continuum existed: The opposite of "satisfaction" is "no satisfaction," and the opposite of "dissatisfaction" is "no dissatisfaction."

Again, Herzberg believed that the factors that led to job satisfaction were separate and distinct from those that led to job dissatisfaction. Therefore, managers who sought to eliminate factors that created job dissatisfaction could keep people from being dissatisfied but not necessarily motivate them. The extrinsic factors that create job dissatisfaction were called **hygiene factors**. When these factors are adequate, people won't be dissatisfied, but they won't be satisfied (or motivated) either. To motivate people, Herzberg suggested emphasizing **motivators**, the intrinsic factors having to do with the job itself.

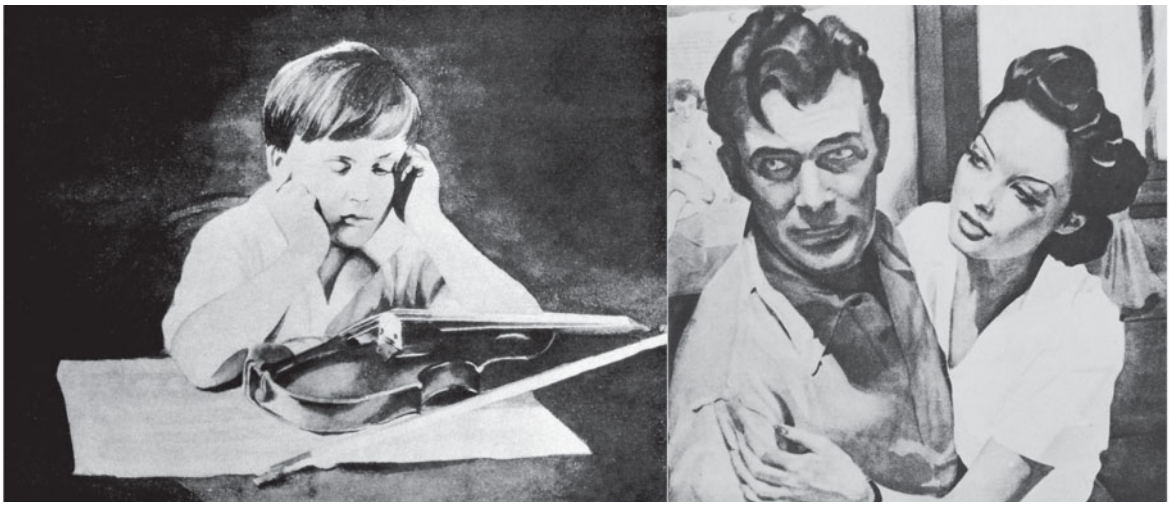
Herzberg's theory enjoyed wide popularity from the mid-1960s to the early 1980s, despite criticisms of his procedures and methodology. Although some critics said his theory was too simplistic, it has influenced how we currently design jobs, especially when it comes to job enrichment, which we'll discuss at a later point in this chapter.

Three-Needs Theory

David McClelland and his associates proposed the **three-needs theory**, which says there are three acquired (not innate) needs that are major motives in work.[14] These three needs include the **need for achievement (nAch)**, which is the drive to succeed and excel in relation to a set of standards; the **need for power (nPow)**, which is the need to make others behave in a way that they would not have behaved otherwise; and the **need for affiliation (nAff)**, which is the desire for friendly and close interpersonal relationships. Of these three needs, the need for achievement has been researched the most.

People with a high need for achievement are striving for personal achievement rather than for the trappings and rewards of success. They have a desire to do something better or more efficiently than it's been done before.[15] They prefer jobs that offer personal responsibility for finding solutions to problems, in which they can receive rapid and unambiguous feedback on their performance in order to tell whether they're improving, and in which they can set moderately challenging goals. High achievers avoid what they perceive to be very easy or very difficult tasks. Also, a high need to achieve doesn't necessarily lead to being a good manager, especially in large organizations. That's because high achievers focus on their *own* accomplishments, while good managers emphasize helping *others* accomplish their goals.[16] McClelland showed that employees can be trained to stimulate their achievement need by being in situations where they have personal responsibility, feedback, and moderate risks.[17]

The other two needs in this theory haven't been researched as extensively as the need for achievement. However, we do know that the best managers tend to be high in the need for power and low in the need for affiliation.[18]



nAch: Indicated by someone in the story wanting to perform or do something better.
nAff: Indicated by someone in the story wanting to be with someone else and enjoy mutual friendship.
nPow: Indicated by someone in the story desiring to have an impact or make an impression on others in the story.

EXHIBIT 16-4
TAT Pictures

All three of these needs can be measured by using a projective test (known as the Thematic Apperception Test or TAT) in which respondents react to a set of pictures. Each picture is briefly shown to a person who writes a story based on the picture. (See Exhibit 16-4 for some examples.) Trained interpreters then determine the individual's levels of nAch, nPow, and nAff from the stories written.

Contemporary Theories of Motivation

16.3

LEARNING OUTCOME
Compare and contrast contemporary theories of motivation.

The theories we look at in this section represent current explanations of employee motivation. Although these theories may not be as well known as those we just discussed, they are supported by research.[19] These contemporary motivation approaches include goal-setting theory, reinforcement theory, job design theory, equity theory, expectancy theory, and high-involvement work practices.

Goal-Setting Theory

At Wyeth's research division, executive vice president Robert Ruffolo established challenging new product quotas for the company's scientists in an attempt to bring more efficiency to the innovation process. And he made bonuses contingent on meeting those goals.[20] Before a big assignment or major class project presentation, has a teacher ever encouraged you to "Just do your best"? What does that vague statement, "do your best," mean? Would your performance on a class project have been higher had that teacher said you needed to score a

hygiene factors
Factors that eliminate job dissatisfaction, but don't motivate

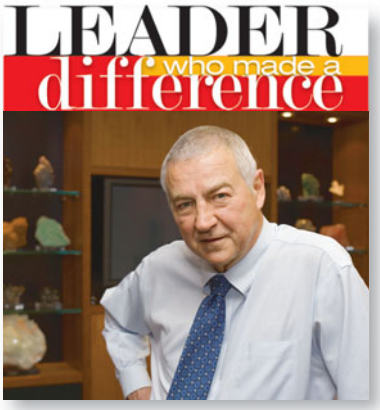
motivators
Factors that increase job satisfaction and motivation

three-needs theory
The motivation theory that says three acquired (not innate) needs—achievement, power, and affiliation—are major motives in work

need for achievement (nAch)
The drive to succeed and excel in relation to a set of standards

need for power (nPow)
The need to make others behave in a way that they would not have behaved otherwise

need for affiliation (nAff)
The desire for friendly and close interpersonal relationships



His privately held software company (the world's largest) has made *Fortune* magazine's list of "Best Companies to Work For" for all 13 years that it's been published.[21] "He" is John Goodnight, CEO and co-founder of Cary, North Carolina–based SAS. Goodnight has always believed in taking care of his employees. His company's approach to giving employees flexibility and perks is "so legendary that even Google uses SAS as a model." Goodnight fashioned SAS's culture around the idea of "trust between our employees and the company." And employees love it! Annual turnover is a low 2 percent and the company is highly profitable. There's something to be said for recognizing that your employees are your most important asset!

93 percent to keep your A in the class? Research on goal-setting theory addresses these issues, and the findings, as you'll see, are impressive in terms of the effect that goal specificity, challenge, and feedback have on performance.[22]

Research provides substantial support for **goal-setting theory**, which says that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals. What does goal-setting theory tell us?

First, working toward a goal is a major source of job motivation. Studies on goal setting have demonstrated that specific and challenging goals are superior motivating forces.[23] Such goals produce a higher output than does the generalized goal of "do your best." The specificity of the goal itself acts as an internal stimulus. For instance, when a sales rep commits to making eight sales calls daily, this intention gives him a specific goal to try to attain.

It's not a contradiction that goal-setting theory says that motivation is maximized by *difficult* goals, whereas achievement motivation (from three-needs theory) is stimulated by *moderately challenging* goals.[24] First, goal-setting theory deals with people in general, whereas the conclusions on achievement motivation are based on people who have a high nAch. Given that no more than 10 to 20 percent of North Americans are high achievers (a proportion that's likely lower in underdeveloped countries), difficult goals are still recommended for the majority of employees. Second, the conclusions of goal-setting theory apply to those who accept and are committed to the goals. Difficult goals will lead to higher performance *only* if they are accepted.

Next, will employees try harder if they have the opportunity to participate in the setting of goals? Not always. In some cases, participatively set goals elicit superior performance; in other cases, individuals performed best when their manager assigned goals. However, participation is probably preferable to assigning goals when employees might resist accepting difficult challenges.[25]

Finally, we know that people will do better if they get feedback on how well they're progressing toward their goals because feedback helps identify discrepancies between what they have done and what they want to do. But all feedback isn't equally effective. Self-generated feedback—where an employee monitors his or her own progress—has been shown to be a more powerful motivator than feedback coming from someone else.[26]

Three other contingencies besides feedback influence the goal-performance relationship: goal commitment, adequate self-efficacy, and national culture.

First, goal-setting theory assumes that an individual is committed to the goal. Commitment is most likely when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned.[27]

Next, **self-efficacy** refers to an individual's belief that he or she is capable of performing a task.[28] The higher your self-efficacy, the more confidence you have in your ability to succeed in a task. So, in difficult situations, we find that people with low self-efficacy are likely to reduce their effort or give up altogether, whereas those with high self-efficacy will try harder to master the challenge.[29] In addition, individuals with high self-efficacy seem to respond to negative feedback with increased effort and motivation, whereas those with low self-efficacy are likely to reduce their effort when given negative feedback.[30]

Finally, the value of goal-setting theory depends on the national culture. It's well adapted to North American countries because its main ideas align reasonably well with those cultures. It assumes that subordinates will be reasonably independent (not a high score on power distance), that people will seek challenging goals (low in uncertainty avoidance), and that performance is considered important by both managers and subordinates (high in assertiveness). Don't expect goal setting to lead to higher employee performance in countries where the cultural characteristics aren't like this.

EXHIBIT 16-5
Goal-Setting Theory

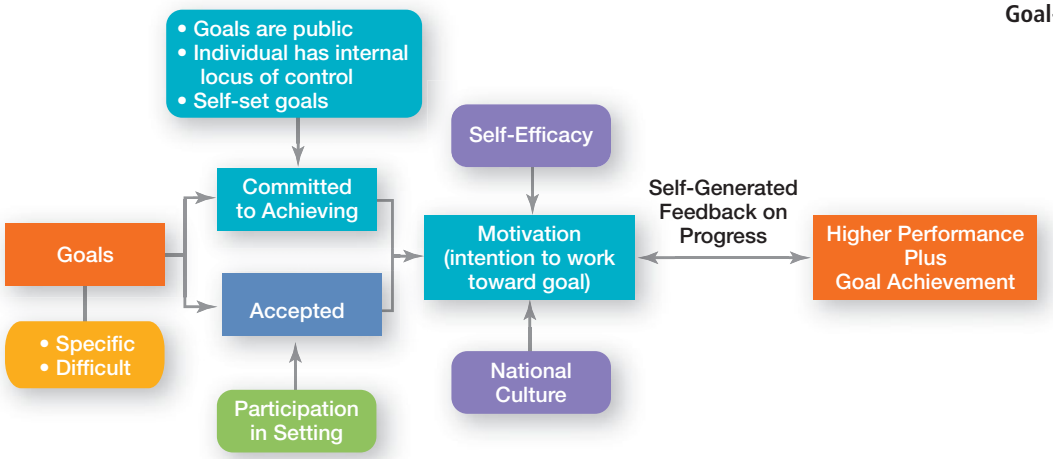


Exhibit 16-5 summarizes the relationships among goals, motivation, and performance. Our overall conclusion is that the intention to work toward hard and specific goals is a powerful motivating force. Under the proper conditions, it can lead to higher performance. However, no evidence indicates that such goals are associated with increased job satisfaction.[31]

Reinforcement Theory

Reinforcement theory says that behavior is a function of its consequences. Those consequences that immediately follow a behavior and increase the probability that the behavior will be repeated are called **reinforcers**.

Reinforcement theory ignores factors such as goals, expectations, and needs. Instead, it focuses solely on what happens to a person when he or she does something. For instance, Walmart improved its bonus program for hourly employees. Employees who provide outstanding customer service get a cash bonus. And all Walmart hourly full- and part-time store employees are eligible for annual "My$hare" bonuses, which are allocated on store performance and distributed quarterly so that workers are rewarded more frequently.[32] The company's intent: keep the workforce motivated to meet goals by rewarding them when they did, thus reinforcing the behaviors.

In Chapter 14 we showed how managers use reinforcers to shape behavior, but the concept is also widely believed to explain motivation. According to B. F. Skinner, people will most likely engage in desired behaviors if they are rewarded for doing so. These rewards are most effective if they immediately follow a desired behavior; and behavior that isn't rewarded, or is punished, is less likely to be repeated.[33]

Using reinforcement theory, managers can influence employees' behavior by using positive reinforcers for actions that help the organization achieve its goals. And managers should ignore, not punish, undesirable behavior. Although punishment eliminates undesired behavior faster than nonreinforcement does, its effect is often temporary and may have unpleasant side effects including dysfunctional behavior such as workplace conflicts, absenteeism, and turnover. Although reinforcement is an important influence on work behavior, it isn't the only explanation for differences in employee motivation.[34]

goal-setting theory
The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals

self-efficacy
An individual's belief that he or she is capable of performing a task

reinforcement theory
The theory that behavior is a function of its consequences

reinforcers
Consequences immediately following a behavior, which increase the probability that the behavior will be repeated

Designing Motivating Jobs

It's not unusual to find shop-floor workers at Cordis LLC's San German, Puerto Rico, facility interacting directly with customers, especially if that employee has special skills or knowledge that could help come up with a solution to a customer's problem.[35] One company executive said, "Our sales guys often encourage this in specific situations because they don't always have all the answers. If by doing this, we can better serve the customers, then we do it." As this example shows, the tasks an employee performs in his or her job are often determined by different factors, such as providing customers what they need when they need it.

Because managers want to motivate individuals on the job, we need to look at ways to design motivating jobs. If you look closely at what an organization is and how it works, you'll find that it's composed of thousands of tasks. These tasks are, in turn, aggregated into jobs. We use the term **job design** to refer to the way tasks are combined to form complete jobs. The jobs that people perform in an organization should not evolve by chance. Managers should design jobs deliberately and thoughtfully to reflect the demands of the changing environment, the organization's technology, and employees' skills, abilities, and preferences.[36] When jobs are designed like that, employees are motivated to work hard. Let's look at some ways that managers can design motivating jobs.[37]

JOB ENLARGEMENT. As we saw in the Management History Module and Chapter 10, job design historically has been to make jobs smaller and more specialized. It's difficult to motivate employees when jobs are like this. An early effort at overcoming the drawbacks of job specialization involved horizontally expanding a job through increasing **job scope**—the number of different tasks required in a job and the frequency with which these tasks are repeated. For instance, a dental hygienist's job could be enlarged so that in addition to cleaning teeth, he or she is pulling patients' files, refiling them when finished, and sanitizing and storing instruments. This type of job design option is called **job enlargement**.

Most job enlargement efforts that focused solely on increasing the number of tasks don't seem to work. As one employee who experienced such a job redesign said, "Before, I had one lousy job. Now, thanks to job enlargement, I have three lousy jobs!" However, research has shown that *knowledge* enlargement activities (expanding the scope of knowledge used in a job) lead to more job satisfaction, enhanced customer service, and fewer errors.[38]

JOB ENRICHMENT. Another approach to job design is the vertical expansion of a job by adding planning and evaluating responsibilities—**job enrichment**. Job enrichment increases **job depth**, which is the degree of control employees have over their work. In other words, employees are empowered to assume some of the tasks typically done by their managers. Thus, an enriched job allows workers to do an entire activity with increased freedom, independence, and responsibility. In addition, workers get feedback so they can assess and correct their own performance. For instance, if our dental hygienist had an enriched job, he or she could, in addition to cleaning teeth, schedule appointments (planning) and follow up with clients (evaluating). Although job enrichment may improve the quality of work, employee motivation, and satisfaction, research evidence has been inconclusive as to its usefulness.[39]

JOB CHARACTERISTICS MODEL. Even though many organizations implemented job enlargement and job enrichment programs and experienced mixed results, neither approach provided an effective framework for managers to design motivating jobs. But the **job characteristics model (JCM)** does.[40] It identifies five core job dimensions, their interrelationships, and their impact on employee productivity, motivation, and satisfaction. These five core job dimensions are:

1. **Skill variety**, the degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents.
2. **Task identity**, the degree to which a job requires completion of a whole and identifiable piece of work.

3. **Task significance**, the degree to which a job has a substantial impact on the lives or work of other people.
4. **Autonomy**, the degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling the work and determining the procedures to be used in carrying it out.
5. **Feedback**, the degree to which doing work activities required by a job results in an individual obtaining direct and clear information about the effectiveness of his or her performance.

The JCM is shown in Exhibit 16-6. Notice how the first three dimensions—skill variety, task identity, and task significance—combine to create meaningful work. In other words, if these three characteristics exist in a job, we can predict that the person will view his or her job as being important, valuable, and worthwhile. Notice, too, that jobs that possess autonomy give the jobholder a feeling of personal responsibility for the results and that if a job provides feedback, the employee will know how effectively he or she is performing.

The JCM suggests that employees are likely to be motivated when they *learn* (knowledge of results through feedback) that they *personally* (experienced responsibility through autonomy of work) performed well on tasks that they *care about* (experienced meaningfulness through skill variety, task identity, or task significance).[41] The more a job is designed around these three elements, the greater the employee's motivation, performance, and satisfaction and the lower his or her absenteeism and likelihood of resigning. As the model shows, the links between the job dimensions and the outcomes are moderated by the strength of the individual's growth need (the person's desire for self-esteem and self-actualization). Individuals with a high growth need are more likely to experience the critical psychological states and

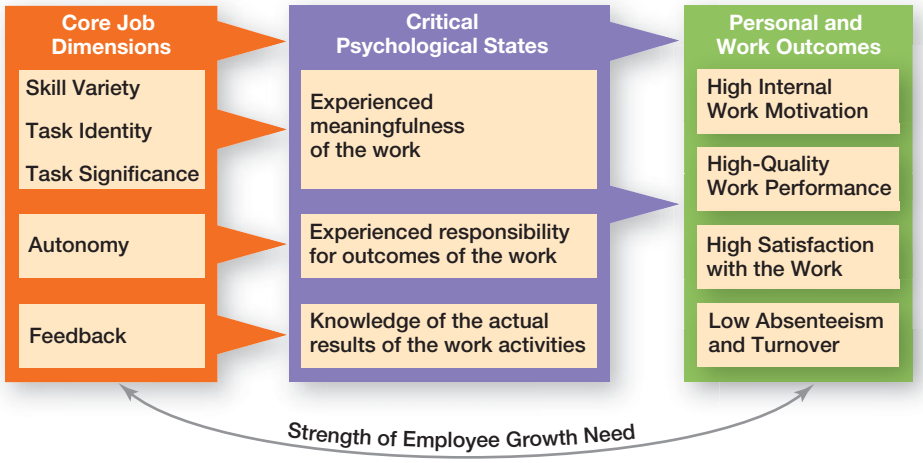


EXHIBIT 16-6

Job Characteristics Model

Source: J. R. Hackman and J. L. Suttle (eds.), *Improving Life at Work* (Glenview, IL: Scott, Foresman, 1977). With permission of authors.

job design
The way tasks are combined to form complete jobs

job scope
The number of different tasks required in a job and the frequency with which those tasks are repeated

job enlargement
The horizontal expansion of a job by increasing job scope

job enrichment
The vertical expansion of a job by adding planning and evaluating responsibilities

job depth
The degree of control employees have over their work

job characteristics model (JCM)
A framework for analyzing and designing jobs that identifies five primary core job dimensions, their interrelationships, and their impact on outcomes

skill variety
The degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents

task identity
The degree to which a job requires completion of a whole and identifiable piece of work

task significance
The degree to which a job has a substantial impact on the lives or work of other people

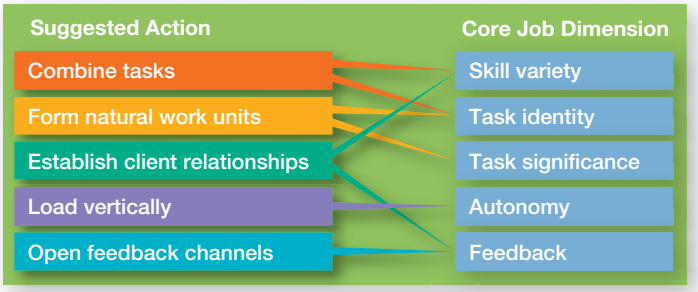
autonomy
The degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling work and determining the procedures to be used in carrying it out

feedback
The degree to which carrying out work activities required by a job results in the individual's obtaining direct and clear information about his or her performance effectiveness

EXHIBIT 16-7

Guidelines for Job Redesign

Source: J. R. Hackman and J. L. Suttle (eds.), *Improving Life at Work* (Glenview, IL: Scott, Foresman, 1977). With permission of authors.



respond positively when their jobs include the core dimensions than are low-growth need individuals. This distinction may explain the mixed results with job enrichment: Individuals with low growth need aren't likely to achieve high performance or satisfaction by having their jobs enriched.

The JCM provides specific guidance to managers for job design. (See Exhibit 16-7.) These suggestions specify the types of changes that are most likely to lead to improvement in the five core job dimensions. You'll notice that two suggestions incorporate job enlargement and job enrichment, although the other suggestions involve more than vertical and horizontal expansion of jobs.

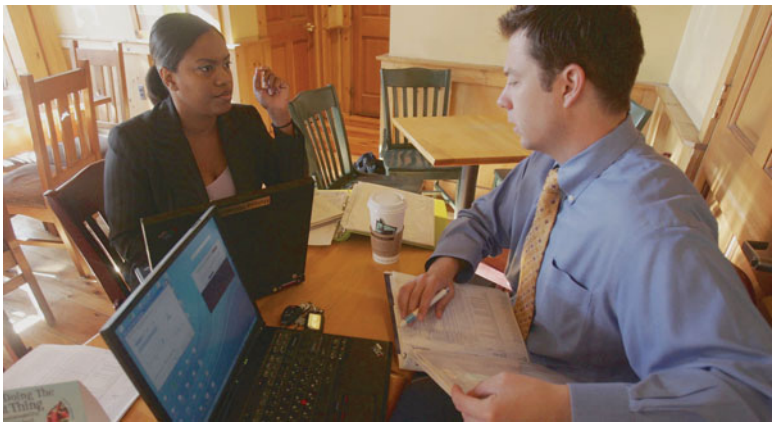
1. *Combine tasks.* Put fragmented tasks back together to form a new, larger work module (job enlargement) to increase skill variety and task identity.
2. *Create natural work units.* Design tasks that form an identifiable and meaningful whole to increase employee "ownership" of the work. Encourage employees to view their work as meaningful and important rather than as irrelevant and boring.
3. *Establish client (external or internal) relationships.* Whenever possible, establish direct relationships between workers and their clients to increase skill variety, autonomy, and feedback.
4. *Expand jobs vertically.* Vertical expansion gives employees responsibilities and controls that were formerly reserved for managers, which can increase employee autonomy.
5. *Open feedback channels.* Direct feedback lets employees know how well they're performing their jobs and whether their performance is improving or not.

Research into the JCM continues. For instance, one recent study looked at using job redesign efforts to change job characteristics and improve employee well-being.[42] Another study examined psychological ownership—that is, a personal feeling of "mine-ness" or "our-ness"—and its role in the JCM.[43]

REDESIGNING JOB DESIGN APPROACHES.[44] Although the JCM has proven to be useful, it may not be totally appropriate for today's jobs that are more service and knowledge-oriented. The nature of these jobs has also changed the tasks that employees do in those jobs. Two emerging viewpoints on job design are causing a rethink of the JCM and other standard approaches. Let's take a look at each perspective.

The first perspective, the **relational perspective of work design**, focuses on how people's tasks and jobs are increasingly based on social relationships. In jobs today, employees have more interactions and interdependence with coworkers and others both inside and outside the organization. In doing their job, employees rely more and more on those around them for information, advice, and assistance. So what does this mean for designing motivating jobs? It means that managers need to look at important components of those employee relationships such as access to and level of social support in an organization, types of interactions outside an organization, amount of task interdependence, and interpersonal feedback.

The second perspective, the **proactive perspective of work design**, says that employees are taking the initiative to change how their work is performed. They're much



The Pfizer pharmaceutical sales reps shown here use a coffee shop with Internet access as their office to work on scheduling visits with physicians. As more and more physicians are relying on the Internet to find medical information, sales reps are taking a proactive approach to how their work is performed. They are enhancing their traditional face-to-face office meetings with doctors to include teleconferences, webcasts, and social media. By using digital technology, sales reps are able to provide doctors with the accurate, relevant, and timely information they need to make educated decisions that will best help their patients.

more involved in decisions and actions that affect their work. Important job design factors according to this perspective include autonomy (which *is* part of the JCM), amount of ambiguity and accountability, job complexity, level of stressors, and social or relationship context. Each of these has been shown to influence employee proactive behavior.

One stream of research that's relevant to proactive work design is that on **high-involvement work practices**, which are work practices designed to elicit greater input or involvement from workers.[45] The level of employee proactivity is believed to increase as employees become more involved in decisions that affect their work. Another term for this approach, which we discussed in an earlier chapter, is employee empowerment.

Equity Theory

Do you ever wonder what kind of grade the person sitting next to you in class makes on a test or on a major class assignment? Most of us do! Being human, we tend to compare ourselves with others. If someone offered you $50,000 a year on your first job after graduating from college, you'd probably jump at the offer and report to work enthusiastic, ready to tackle whatever needed to be done, and certainly satisfied with your pay. How would you react, though, if you found out a month into the job that a coworker—another recent graduate, your age, with comparable grades from a comparable school, and with comparable work experience—was getting $55,000 a year? You'd probably be upset! Even though in absolute terms, $50,000 is a lot of money for a new graduate to make (and you know it!), that suddenly isn't the issue. Now you see the issue as what you believe is *fair*—what is *equitable.* The term *equity* is related to the concept of fairness and equitable treatment compared with others who behave in similar ways. Evidence indicates that employees compare themselves to others and that inequities influence how much effort employees exert.[46]

Equity theory, developed by J. Stacey Adams, proposes that employees compare what they get from a job (outcomes) in relation to what they put into it (inputs), and then they compare their inputs–outcomes ratio with the inputs–outcomes ratios of relevant others (Exhibit 16-8). If an employee perceives her ratio to be equitable in comparison to those of relevant others, there's no problem. However, if the ratio is inequitable, she views herself as underrewarded or overrewarded. When inequities occur, employees attempt to do something about it.[47] The result might be lower or higher productivity, improved or reduced quality of output, increased absenteeism, or voluntary resignation.

relational perspective of work design
An approach to job design that focuses on how people's tasks and jobs are increasingly based on social relationships

proactive perspective of work design
An approach to job design in which employees take the initiative to change how their work is performed

high-involvement work practices
Work practices designed to elicit greater input or involvement from workers

equity theory
The theory that an employee compares his or her job's input–outcomes ratio with that of relevant others and then corrects any inequity

EXHIBIT 16-8
Equity Theory

Perceived Ratio Comparison[a]	Employee's Assessment
$\frac{\text{Outcomes A}}{\text{Inputs A}} < \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (underrewarded)
$\frac{\text{Outcomes A}}{\text{Inputs A}} = \frac{\text{Outcomes B}}{\text{Inputs B}}$	Equity
$\frac{\text{Outcomes A}}{\text{Inputs A}} > \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (overrewarded)

[a]Person A is the employee, and person B is a relevant other or referent.

The **referent**—the other persons, systems, or selves individuals compare themselves against in order to assess equity—is an important variable in equity theory.[48] Each of the three referent categories is important. The "persons" category includes other individuals with similar jobs in the same organization but also includes friends, neighbors, or professional associates. Based on what they hear at work or read about in newspapers or trade journals, employees compare their pay with that of others. The "system" category includes organizational pay policies, procedures, and allocation. The "self" category refers to inputs–outcomes ratios that are unique to the individual. It reflects past personal experiences and contacts and is influenced by criteria such as past jobs or family commitments.

Originally, equity theory focused on **distributive justice**, which is the perceived fairness of the amount and allocation of rewards among individuals. More recent research has focused on looking at issues of **procedural justice**, which is the perceived fairness of the process used to determine the distribution of rewards. This research shows that distributive justice has a greater influence on employee satisfaction than procedural justice, while procedural justice tends to affect an employee's organizational commitment, trust in his or her boss, and intention to quit.[49] What are the implications for managers? They should consider openly sharing information on how allocation decisions are made, follow consistent and unbiased procedures, and engage in similar practices to increase the perception of procedural justice. By increasing the perception of procedural justice, employees are likely to view their bosses and the organization as positive even if they're dissatisfied with pay, promotions, and other personal outcomes.

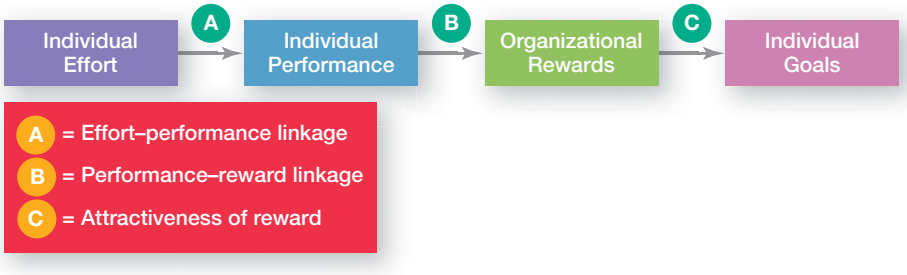
Expectancy Theory

The most comprehensive explanation of how employees are motivated is Victor Vroom's **expectancy theory**.[50] Although the theory has its critics,[51] most research evidence supports it.[52]

Expectancy theory states that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. It includes three variables or relationships (see Exhibit 16-9):

1. *Expectancy* or *effort–performance linkage* is the probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance.

EXHIBIT 16-9
Expectancy Model



2. *Instrumentality* or *performance–reward linkage* is the degree to which the individual believes that performing at a particular level is instrumental in attaining the desired outcome.
3. *Valence* or *attractiveness of reward* is the importance that the individual places on the potential outcome or reward that can be achieved on the job. Valence considers both the goals and needs of the individual.

This explanation of motivation might sound complicated, but it really isn't. It can be summed up in the questions: How hard do I have to work to achieve a certain level of performance, and can I actually achieve that level? What reward will performing at that level of performance get me? How attractive is the reward to me, and does it help me achieve my own personal goals? Whether you are motivated to put forth effort (that is, to work hard) at any given time depends on your goals and your perception of whether a certain level of performance is necessary to attain those goals. Let's look at an example. Your second author had a student many years ago who went to work for IBM as a sales rep. Her favorite work "reward" was having an IBM corporate jet fly into Springfield, Missouri, to pick up her best customers and her and take them for a weekend of golfing at some fun location. But to get that particular "reward," she had to achieve at a certain level of performance, which involved exceeding her sales goals by a specified percentage. How hard she was willing to work (that is, how motivated she was to put forth effort) was dependent on the level of performance that had to be met and the likelihood that if she achieved at that level of performance she would receive that reward. Because she "valued" that reward, she always worked hard to exceed her sales goals. And the performance–reward linkage was clear because her hard work and performance achievements were always rewarded by the company with the reward she valued (access to the corporate jet).

The key to expectancy theory is understanding an individual's goal and the linkage between effort and performance, between performance and rewards, and finally, between rewards and individual goal satisfaction. It emphasizes payoffs, or rewards. As a result, we have to believe that the rewards an organization is offering align with what the individual wants. Expectancy theory recognizes that no universal principle explains what motivates individuals and thus stresses that managers understand why employees view certain outcomes as attractive or unattractive. After all, we want to reward individuals with those things they value positively. Also, expectancy theory emphasizes expected behaviors. Do employees know what is expected of them and how they'll be evaluated? Finally, the theory is concerned with perceptions. Reality is irrelevant. An individual's own perceptions of performance, reward, and goal outcomes, not the outcomes themselves, will determine his or her motivation (level of effort).

Integrating Contemporary Theories of Motivation

Many of the ideas underlying the contemporary motivation theories are complementary, and you'll understand better how to motivate people if you see how the theories fit together.[53] Exhibit 16-10 presents a model that integrates much of what we know about motivation. Its basic foundation is the expectancy model. Let's work through the model, starting on the left.

The individual effort box has an arrow leading into it. This arrow flows from the individual's goals. Consistent with goal-setting theory, this goals–effort link is meant to illustrate that goals direct behavior. Expectancy theory predicts that an employee will exert a high level of effort if he or she perceives a strong relationship between effort and performance, performance and rewards, and rewards and satisfaction of personal goals. Each of these relationships is, in turn, influenced by certain factors. You can see from the model that the level of individual performance is determined not only by the level of individual effort but also by the

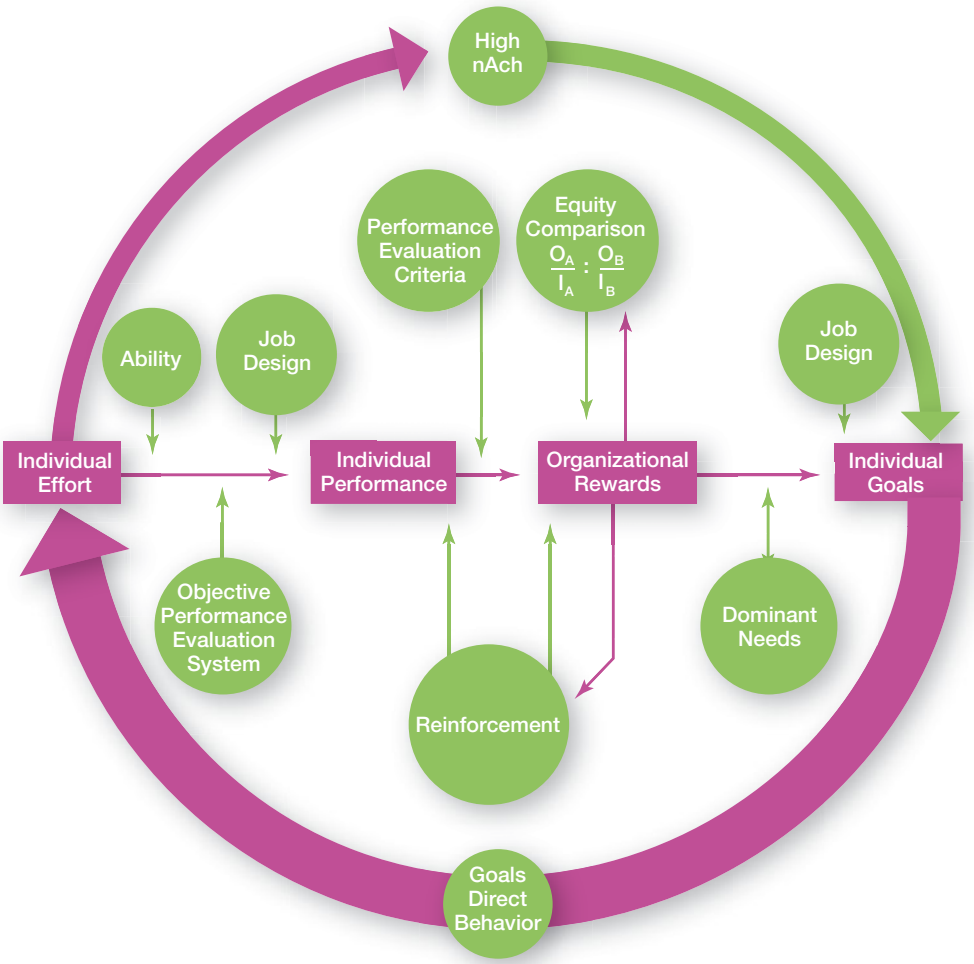
referents
The persons, systems, or selves against which individuals compare themselves to assess equity

distributive justice
Perceived fairness of the amount and allocation of rewards among individuals

procedural justice
Perceived fairness of the process used to determine the distribution of rewards

expectancy theory
The theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual

EXHIBIT 16-10
Integrating Contemporary Theories of Motivation



individual's ability to perform and by whether the organization has a fair and objective performance evaluation system. The performance–reward relationship will be strong if the individual perceives that performance (rather than seniority, personal favorites, or some other criterion) is what is rewarded. The final link in expectancy theory is the rewards–goal relationship. The traditional need theories come into play at this point. Motivation would be high to the degree that the rewards an individual received for his or her high performance satisfied the dominant needs consistent with his or her individual goals.

A closer look at the model also shows that it considers the achievement–need, reinforcement, equity, and JCM theories. The high achiever isn't motivated by the organization's assessment of his or her performance or organizational rewards; hence the jump from effort to individual goals for those with a high nAch. Remember that high achievers are internally driven as long as the jobs they're doing provide them with personal responsibility, feedback, and moderate risks. They're not concerned with the effort–performance, performance–reward, or rewards–goals linkages.

Reinforcement theory is seen in the model by recognizing that the organization's rewards reinforce the individual's performance. If managers have designed a reward system that is seen by employees as "paying off" for good performance, the rewards will reinforce and encourage continued good performance. Rewards also play a key part in equity theory. Individuals will compare the rewards (outcomes) they have received from the inputs or efforts they made with the inputs–outcomes ratio of relevant others. If inequities exist, the effort expended may be influenced.

Finally, the JCM is seen in this integrative model. Task characteristics (job design) influence job motivation at two places. First, jobs that are designed around the five job

dimensions are likely to lead to higher actual job performance because the individual's motivation will be stimulated by the job itself—that is, they will increase the linkage between effort and performance. Second, jobs that are designed around the five job dimensions also increase an employee's control over key elements in his or her work. Therefore, jobs that offer autonomy, feedback, and similar task characteristics help to satisfy the individual goals of employees who desire greater control over their work.

Current Issues in Motivation

16.4 LEARNING OUTCOME
Discuss current issues in motivation.

After Vincent Stevens's church ran an experiment in which 10 members were each given $100 to help their communities, some used it as seed capital to raise thousands more. As a partner in a Bellevue, Washington, accounting firm, he wondered what would happen if he tried the same thing with his employees. To find out, his company launched Caring, Serving, and Giving, a program that lets employees apply for grants of up to $500 to fund community service projects. By empowering employees to use the seed money as they saw fit, they were motivated to make the best use of it. Another benefit that was realized was a boost in employee morale.[54]

Understanding and predicting employee motivation is one of the most popular areas in management research. We've introduced you to several motivation theories. However, even the contemporary theories of employee motivation are influenced by some significant workplace issues—motivating in tough economic circumstances, managing cross-cultural challenges, motivating unique groups of workers, and designing appropriate rewards programs.

Motivating in Tough Economic Circumstances

Zappos, the quirky Las Vegas–based online shoe retailer (now a part of Amazon.com), has always had a reputation for being a fun place to work.[55] However, during the economic recession, it, like many companies, had to cut staff—124 employees in total. CEO Tony Hsieh wanted to get out the news fast to lessen the stress for his employees. So he announced the layoff in an e-mail, on his blog, and on his Twitter account. Although some might think these are terrible ways to communicate that kind of news, most employees thanked him for being so open and so honest. The company also took good care of those being laid off. Laid-off employees with less than two years of service were paid through the end of the year. Longer-tenured employees got four weeks for every year of service. All got six months of continued paid health coverage and, at the request of the employees, got to keep their 40 percent merchandise discount through the Christmas season. Zappos had always been a model of how to nurture employees in good times, now it showed how to treat employees in bad times.

The economic recession of the last few years was difficult for many organizations, especially when it came to their employees. Layoffs, tight budgets, minimal or no pay raises, benefit cuts, no bonuses, long hours doing the work of those who had been laid off—this was the reality that many employees faced. As conditions deteriorated, employee confidence, optimism, and job engagement plummeted as well. As you can imagine, it wasn't an easy thing for managers to keep employees motivated under such challenging circumstances.

Managers came to realize that in an uncertain economy, they had to be creative in keeping their employees' efforts energized, directed, and sustained toward achieving goals. They were forced to look at ways to motivate employees that didn't involve money or that were relatively inexpensive.[56] So they relied on actions such as holding meetings with employees to keep the lines of communication open and to get their input on issues; establishing a common goal, such as maintaining excellent customer service, to keep everyone focused; creating a community feel so employees could see that managers cared about them and their work; and giving employees opportunities to continue to learn and grow. And, of course, an encouraging word always went a long way.

Managing Cross-Cultural Motivational Challenges

Scores of employees at Denmark's largest brewer, Carlsberg A/S, walked off their jobs in protest after the company tightened rules on workplace drinking and removed beer coolers from work sites.[57] Now that's a motivational challenge you don't often see in U.S. workplaces!

In an uncertain economy and with less money to spend on raises and health benefits, companies are setting up vegetable and herb gardens as a creative, easy, and relatively inexpensive way to motivate employees, improve their health, and help them save money on their food bills. In company gardens, employees can work, take home what they harvest, and share extra produce with their local food bank. Some firms use their gardens for team-building exercises such as constructing tomato trellises together, and others incorporate them into their health and wellness programs. Shown here are employees of Harvard Pilgrim Health Care planting chard starts in raised beds at their company garden.

In today's global business environment, managers can't automatically assume that motivational programs that work in one geographic location are going to work in others. Most current motivation theories were developed in the United States by Americans and about Americans.[58] Maybe the most blatant pro-American characteristic in these theories is the strong emphasis on individualism and achievement. For instance, both goal-setting and expectancy theories emphasize goal accomplishment as well as rational and individual thought. Let's look at the motivation theories to see their level of cross-cultural transferability.

Maslow's need hierarchy argues that people start at the physiological level and then move progressively up the hierarchy in order. This hierarchy, if it has any application at all, aligns with American culture. In countries like Japan, Greece, and Mexico, where uncertainty avoidance characteristics are strong, security needs would be the foundational layer of the need hierarchy. Countries that score high on nurturing characteristics—Denmark, Sweden, Norway, the Netherlands, and Finland—would have social needs as their foundational level.[59] We would predict, for instance, that group work will be more motivating when the country's culture scores high on the nurturing criterion.

Another motivation concept that clearly has an American bias is the achievement need. The view that a high achievement need acts as an internal motivator presupposes two cultural characteristics—a willingness to accept a moderate degree of risk (which excludes countries with strong uncertainty avoidance characteristics) and a concern with performance (which applies almost singularly to countries with strong achievement characteristics). This combination is found in Anglo-American countries such as the United States, Canada, and Great Britain.[60] On the other hand, these characteristics are relatively absent in countries such as Chile and Portugal.

Equity theory has a relatively strong following in the United States, which is not surprising given that U.S.-style reward systems are based on the assumption that workers are highly sensitive to equity in reward allocations. In the United States, equity is meant to closely link pay to performance. However, recent evidence suggests that in collectivist cultures, especially in the former socialist countries of Central and Eastern Europe, employees expect rewards to reflect their individual needs as well as their performance.[61] Moreover, consistent with a legacy of communism and centrally planned economies, employees exhibited a greater "entitlement" attitude—that is, they expected outcomes to be greater than their inputs.[62] These findings suggest that U.S.-style pay practices may need to be modified in some countries in order to be perceived as fair by employees.

Another research study of more than 50,000 employees around the world examined two cultural characteristics from the GLOBE framework—individualism and masculinity—(see Chapter 3 for a discussion of these characteristics) in relation to motivation.[63] The researchers found that in individualistic cultures such as the United States and Canada,

individual initiative, individual freedom, and individual achievement are highly valued. In more collective cultures such as Iran, Peru, and China, however, employees may be less interested in receiving individual praise but place a greater emphasis on harmony, belonging, and consensus. They also found that in masculine (achievement/assertive) cultures such as Japan and Slovakia, the focus is on material success. Those work environments are designed to push employees hard and then reward top performers with high earnings. However, in more feminine (nurturing) cultures such as Sweden and the Netherlands, smaller wage gaps among employees are common, and employees are likely to have extensive quality-of-life benefits.

Despite these cross-cultural differences in motivation, some cross-cultural consistencies are evident. For instance, the desire for interesting work seems important to almost all workers, regardless of their national culture. In a study of seven countries, employees in Belgium, Britain, Israel, and the United States ranked "interesting work" number one among 11 work goals. It was ranked either second or third in Japan, the Netherlands, and Germany.[64] Similarly, in a study comparing job-preference outcomes among graduate students in the United States, Canada, Australia, and Singapore, growth, achievement, and responsibility were rated the top three and had identical rankings.[65] Both studies suggest some universality to the importance of intrinsic factors identified by Herzberg in his two-factor theory. Another recent study examining workplace motivation trends in Japan also seems to indicate that Herzberg's model is applicable to Japanese employees.[66]

Motivating Unique Groups of Workers

At Deloitte, employees are allowed to "dial up" or "dial down" their job responsibilities to fit their personal and professional goals.[67] The company's program called Mass Career Customization has been a huge hit with its employees! In the first 12 months after it was rolled out, employee satisfaction with "overall career/life fit" rose by 25 percent. Also, the number of high-performing employees staying with Deloitte increased.

Motivating employees has never been easy! Employees come into organizations with different needs, personalities, skills, abilities, interests, and aptitudes. They have different expectations of their employers and different views of what they think their employer has a right to expect of them. And they vary widely in what they want from their jobs. For instance, some employees get more satisfaction out of their personal interests and pursuits and only want a weekly paycheck—nothing more. They're not interested in making their work more challenging or interesting or in "winning" performance contests. Others derive a great deal of satisfaction in their jobs and are motivated to exert high levels of effort. Given these differences, how can managers do an effective job of motivating the unique groups of employees found in today's workforce? One thing is to understand the motivational requirements of these groups including diverse employees, professionals, contingent workers, and low-skilled minimum-wage employees.

FUTURE VISION

The Working World in 2020

Individualized Rewards

Organizations have historically assumed that "one size fits all" when it comes to allocating rewards. Managers typically assumed that everyone wants more money and more vacation time. But as organizations become less bureaucratic and more capable of differentiating rewards, managers will be encouraged to differentiate rewards among employees as well as for individual employees over time.

Organizations control a vast number of potential rewards that employees might find appealing. A partial list would include increased base pay, bonuses, shortened workweeks, extended vacations, paid sabbaticals, flexible work hours, part-time employment, guaranteed job security, increased pension contributions, college tuition reimbursement, personal days off, help in purchasing a home, recognition awards, paid club memberships, and work-from-home options. In the future, most organizations will structure individual reward packages in ways that will maximize employee motivation.

MOTIVATING A DIVERSE WORKFORCE. To maximize motivation among today's workforce, managers need to think in terms of *flexibility.* For instance, studies tell us that men place more importance on having autonomy in their jobs than do women. In contrast, the opportunity to learn, convenient and flexible work hours, and good interpersonal relations are more important to women.[68] Having the opportunity to be independent and to be exposed to different experiences is important to Gen Y employees whereas older workers may be more interested in highly structured work opportunities.[69] Managers need to recognize that what motivates a single mother with two dependent children who's working full time to support her family may be very different from the needs of a single part-time employee or an older employee who is working only to supplement his or her retirement income. A diverse array of rewards is needed to motivate employees with such diverse needs. Many of the work–life balance programs (see Chapter 12) that organizations have implemented are a response to the varied needs of a diverse workforce. In addition, many organizations have developed flexible work arrangements—such as compressed workweeks, flextime, and job sharing, which we discussed in Chapter 11—that recognize different needs. Another job alternative that we also discussed earlier is telecommuting. However, keep in mind that not all employees embrace the idea of telecommuting. Some workers relish the informal interactions at work that satisfy their social needs as well as being a source of new ideas.

Do flexible work arrangements motivate employees? Although such arrangements might seem highly motivational, both positive and negative relationships have been found. For instance, a recent study that looked at the impact of telecommuting on job satisfaction found that job satisfaction initially increased as the extent of telecommuting increased, but as the number of hours spent telecommuting increased, job satisfaction started to level off, decreased slightly, and then stabilized.[70]

MOTIVATING PROFESSIONALS. In contrast to a generation ago, the typical employee today is more likely to be a professional with a college degree than a blue-collar factory worker. What special concerns should managers be aware of when trying to motivate a team of engineers at Intel's India Development Center, software designers at SAS Institute in North Carolina, or a group of consultants at Accenture in Singapore?

Professionals are different from nonprofessionals.[71] They have a strong and long-term commitment to their field of expertise. To keep current in their field, they need to regularly update their knowledge, and because of their commitment to their profession they rarely define their workweek as 8 A.M. to 5 P.M. five days a week.

What motivates professionals? Money and promotions typically are low on their priority list. Why? They tend to be well paid and enjoy what they do. In contrast, job challenge tends to be ranked high. They like to tackle problems and find solutions. Their chief reward is the work itself. Professionals also value support. They want others to think that what they are working on is important. That may be true for all employees, but professionals tend to be focused on their work as their central life interest, whereas nonprofessionals typically have other interests outside of work that can compensate for needs not met on the job.

MOTIVATING CONTINGENT WORKERS. We discussed in Chapter 11 the increased number of contingent workers employed by organizations. There's no simple solution for motivating these employees. For that small set of individuals who prefer the freedom of their temporary status, the lack of stability may not be an issue. In addition, temporariness might be preferred by highly compensated physicians, engineers, accountants, or financial planners who don't want the demands of a full-time job. But these individuals are the exceptions. For the most part, temporary employees are not temporary by choice.

What will motivate involuntarily temporary employees? An obvious answer is the opportunity to become a permanent employee. In cases in which permanent employees are selected from a pool of temps, the temps will often work hard in hopes of becoming permanent. A less obvious answer is the opportunity for training. The ability of a temporary employee to find a new job is largely dependent on his or her skills. If an employee sees that the job he or she is doing can help develop marketable skills, then motivation is increased. From an equity standpoint, when temps work alongside permanent employees who earn more and get benefits too for doing the same job, the performance of temps is likely

to suffer. Separating such employees or perhaps minimizing interdependence between them might help managers counteract potential problems.[72]

MOTIVATING LOW-SKILLED, MINIMUM-WAGE EMPLOYEES. Suppose that in your first managerial position after graduating, you're responsible for managing a work group of low-skilled, minimum-wage employees. Offering more pay to these employees for high levels of performance is out of the question: your company just can't afford it. In addition, these employees have limited education and skills. What are your motivational options at this point?

One trap we often fall into is thinking that people are motivated only by money. Although money is important as a motivator, it's not the only reward that people seek and that managers can use. In motivating minimum-wage employees, managers might look at employee recognition programs. Many managers also recognize the power of praise although these "pats on the back" must be sincere and given for the right reasons.

Let's Get Real

My biggest motivation challenge is *motivating employees who do not want to be motivated.*

Designing Appropriate Rewards Programs

Blue Cross of California, one of the nation's largest health insurers, pays bonuses to doctors serving its health maintenance organization members based on patient satisfaction and other quality standards. FedEx's drivers are motivated by a pay system that rewards them for timeliness and how much they deliver.[73] Employee rewards programs play a powerful role in motivating appropriate employee behavior.

OPEN-BOOK MANAGEMENT. Within 24 hours after managers of the Heavy Duty Division of Springfield Remanufacturing Company (SRC) gather to discuss a multi-page financial document, every plant employee will have seen the same information. If the employees can meet shipment goals, they'll all share in a large year-end bonus.[74] Many organizations of various sizes involve their employees in workplace decisions by opening up the financial statements (the "books"). They share that information so that employees will be motivated to make better decisions about their work and better able to understand the implications of what they do, how they do it, and the ultimate impact on the bottom line. This approach is called **open-book management** and many organizations are using it.[75] For instance, at Parrish Medical Center in Titusville, Florida, CEO George Mikitarian was struggling with the prospect of massive layoffs, facilities closing, and profits declining. So he turned to "town hall meetings" in which employees received updates on the financial condition of the hospital. He also told his employees that it would require their commitment to help find ways to reduce expenses and cut costs.[76]

The goal of open-book management is to get employees to think like an owner by seeing the impact their decisions have on financial results. Since many employees don't have the knowledge or background to understand the financials, they have to be taught how to read and understand the organization's financial statements. Once employees have this knowledge, however, managers need to regularly share the numbers with them. By sharing this information, employees begin to see the link between their efforts, level of performance, and operational results.

EMPLOYEE RECOGNITION PROGRAMS. **Employee recognition programs** consist of personal attention and expressing interest, approval, and appreciation for a job well done.[78] They can take numerous forms. For instance, Kelly Services introduced a new version of its points-based incentive system to better promote productivity and retention among its

by the numbers[77]

54 percent of employees say that their colleagues are the ones who appreciate them the most at work.

70 percent of employees say that their relationship with their manager is important to their level of engagement.

47 percent of employees say that their employer doesn't provide any forms of motivation.

50 percent of employees say that the perk they'd most like from their employer is free soda or water.

42 percent of employees say that verbal recognition is their most preferred form of recognition at work.

27 percent of employees say that the work itself is what makes going to work worthwhile.

51 percent of employees say they're underpaid for the work they do.

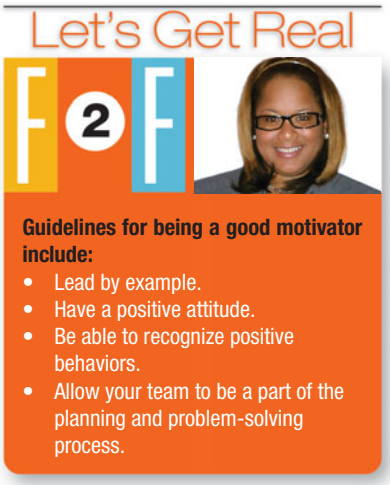
open-book management
A motivational approach in which an organization's financial statements (the "books") are shared with all employees

employee recognition programs
Personal attention and expressing interest, approval, and appreciation for a job well done

employees. The program, called Kelly Kudos, gives employees more choices of awards and allows them to accumulate points over a longer time period. It's working. Participants generate three times more revenue and hours than employees not receiving points do.[79] Nichols Foods, a British manufacturer, has a comprehensive recognition program. The main hallway in the production department is hung with "bragging boards" on which the accomplishments of employee teams are noted. Monthly awards are presented to people who have been nominated by peers for extraordinary effort on the job. And monthly award winners are eligible for further recognition at an off-site meeting for all employees.[80] Most managers, however, use a far more informal approach. For example, when Julia Stewart, currently the president and CEO of IHOP International, was president of Applebee's Restaurants, she would frequently leave sealed notes on the chairs of employees after everyone had gone home.[81] These notes explained how important Stewart thought the person's work was or how much she appreciated the completion of a project. Stewart also relied heavily on voice mail messages left after office hours to tell employees how appreciative she was for a job well done. And recognition doesn't have to come only from managers. Some 35 percent of companies encourage coworkers to recognize peers for outstanding work efforts.[82] For instance, managers at Yum Brands Inc. (the Kentucky-based parent of food chains Taco Bell, KFC, and Pizza Hut) were looking for ways to reduce employee turnover. They found a successful customer-service program involving peer recognition at KFC restaurants in Australia. Workers there spontaneously rewarded fellow workers with "Champs cards, an acronym for attributes such as cleanliness, hospitality, and accuracy." Yum implemented the program in other restaurants around the world, and credits the peer recognition with reducing hourly employee turnover from 181 percent to 109 percent.[83]

A recent survey of organizations found that 84 percent had some type of program to recognize worker achievements.[84] And do employees think these programs are important? You bet! In a survey conducted a few years ago, a wide range of employees was asked what they considered the most powerful workplace motivator. Their response? Recognition, recognition, and more recognition![85]

Consistent with reinforcement theory, rewarding a behavior with recognition immediately following that behavior is likely to encourage its repetition. And recognition can take many forms. You can personally congratulate an employee in private for a good job. You can send a handwritten note or e-mail message acknowledging something positive that the employee has done. For employees with a strong need for social acceptance, you can publicly recognize accomplishments. To enhance group cohesiveness and motivation, you can celebrate team successes. For instance, you can do something as simple as throw a pizza party to celebrate a team's accomplishments. During the economic recession, managers got quite creative in how they showed employees they were appreciated.[86] For instance, employees at one company got to take home fresh vegetables from the company vegetable garden. In others, managers treated employees who really put forth efforts on a project to a special meal or movie tickets. Also, managers can show employees that no matter what his or her role may be, that their contributions matter. Some of these things may seem simple, but they can go a long way in showing employees they're valued.



PAY-FOR-PERFORMANCE. Here's a survey statistic that may surprise you: 40 percent of employees see no clear link between performance and pay.[87] So what are the companies where these employees work paying for? They're obviously not clearly communicating performance expectations.[88] **Pay-for-performance programs** are variable compensation plans that pay employees on the basis of some performance measure.[89] Piece-rate pay plans, wage incentive plans, profit-sharing, and lump-sum bonuses are examples. What differentiates these forms of pay from more traditional compensation plans is that instead of paying a person for time on the job, pay is adjusted to reflect some performance measure. These

pay-for-performance programs
Variable compensation plans that pay employees on the basis of some performance measure

performance measures might include such things as individual productivity, team or work group productivity, departmental productivity, or the overall organization's profit performance.

Pay-for-performance is probably most compatible with expectancy theory. Individuals should perceive a strong relationship between their performance and the rewards they receive for motivation to be maximized. If rewards are allocated only on nonperformance factors—such as seniority, job title, or across-the-board pay raises—then employees are likely to reduce their efforts. From a motivation perspective, making some or all an employee's pay conditional on some performance measure focuses his or her attention and effort toward that measure, then reinforces the continuation of the effort with a reward. If the employee's team's or organization's performance declines, so does the reward. Thus, there's an incentive to keep efforts and motivation strong.

Pay-for-performance programs are popular. Some 80 percent of large U.S. companies have some form of variable pay plan.[90] These types of pay plans have also been tried in other countries such as Canada and Japan. About 30 percent of Canadian companies and 22 percent of Japanese companies have company-wide pay-for-performance plans.[91]

Do pay-for-performance programs work? For the most part, studies seem to indicate that they do. For instance, one study found that companies that used pay-for-performance programs performed better financially than those that did not.[92] Another study showed that pay-for-performance programs with outcome-based incentives had a positive impact on sales, customer satisfaction, and profits.[93] If an organization uses work teams, managers should consider group-based performance incentives that will reinforce team effort and commitment. But whether these programs are individual based or team based, managers need to ensure that they're specific about the relationship between an individual's pay and his or her expected level of appropriate performance. Employees must clearly understand exactly how performance—theirs and the organization's—translates into dollars on their paychecks.[94]

Let's Get Real:

My Response *to A Manager's Dilemma, page 430*

I would determine what motivates the employees to perform well by doing a survey. Based upon the survey results, I would create a contest with rewards that motivate the employees. I would also focus on rewarding great behavior. Everyone deserves to be rewarded for their hard work and effort toward achieving the goal. When companies award their employees, it proves to the employees that they are appreciated. Therefore, the employees will work harder and do better. If you take care of your team, the team will take care of you.

What Would You Do?

Aisha Warren
Retail Store Manager
Dots, LLC
Warren, MI

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 16.1

Define motivation.

Motivation is the process by which a person's efforts are energized, directed, and sustained toward attaining a goal.

The *energy* element is a measure of intensity, drive, or vigor. The high level of effort needs to be *directed* in ways that help the organization achieve its goals. Employees must *persist* in putting forth effort to achieve those goals.

LEARNING OUTCOME 16.2

Compare and contrast early theories of motivation.

In Maslow's hierarchy, individuals move up the hierarchy of five needs (physiological, safety, social, esteem, and self-actualization) as needs are substantially satisfied. A need that's substantially satisfied no longer motivates.

A Theory X manager believes that people don't like to work or won't seek out responsibility so they have to be threatened and coerced to work. A Theory Y manager assumes that people like to work and seek out responsibility, so they will exercise self-motivation and self-direction.

Herzberg's theory proposed that intrinsic factors associated with job satisfaction were what motivated people. Extrinsic factors associated with job dissatisfaction simply kept people from being dissatisfied.

Three-needs theory proposed three acquired needs that are major motives in work: need for achievement, need for affiliation, and need for power.

LEARNING OUTCOME 16.3

Compare and contrast contemporary theories of motivation.

Goal-setting theory says that specific goals increase performance, and difficult goals, when accepted, result in higher performance than do easy goals. Important points in goal-setting theory include intention to work toward a goal as a major source of job motivation; specific hard goals that produce higher levels of output than generalized goals; participation in setting goals as preferable to assigning goals, but not always; feedback that guides and motivates behavior, especially self-generated feedback; and contingencies that affect goal setting—goal commitment, self-efficacy, and national culture. Reinforcement theory says that behavior is a function of its consequences. To motivate, use positive reinforcers to reinforce desirable behaviors. Ignore undesirable behavior rather than punishing it.

Job enlargement involves horizontally expanding job scope by adding more tasks or increasing how many times the tasks are done. Job enrichment vertically expands job depth by giving employees more control over their work. The job characteristics model says five core job dimensions (skill variety, task identity, task significance, autonomy, and feedback) are used to design motivating jobs. Another job design approach proposed looking at relational aspects and proactive aspects of jobs.

Equity theory focuses on how employees compare their inputs–outcomes ratios to relevant others' ratios. A perception of inequity will cause an employee to do something about it. Procedural justice has a greater influence on employee satisfaction than does distributive justice.

Expectancy theory says that an individual tends to act in a certain way based on the expectation that the act will be followed by a desired outcome. Expectancy is the effort–performance linkage (how much effort do I need to exert to achieve a certain level of performance); instrumentality is the performance–reward linkage (achieving at a certain level of performance will get me a specific reward); and valence is the attractiveness of the reward (Is it the reward that I want?).

Discuss current issues in motivation.

LEARNING OUTCOME 16.4

Managers must cope with four current motivation issues: motivating in tough economic circumstances, managing cross-cultural challenges, motivating unique groups of workers, and designing appropriate rewards programs.

During tough economic conditions, managers must look for creative ways to keep employees' efforts energized, directed, and sustained toward achieving goals.

Most motivational theories were developed in the United States and have a North American bias. Some theories (Maslow's need hierarchy, achievement need, and equity theory) don't work well for other cultures. However, the desire for interesting work seems important to all workers and Herzberg's motivator (intrinsic) factors may be universal.

Managers face challenges in motivating unique groups of workers. A diverse workforce is looking for flexibility. Professionals want job challenge and support, and are motivated by the work itself. Contingent workers want the opportunity to become permanent or to receive skills training. Recognition programs and sincere appreciation for work done can be used to motivate low-skilled, minimum-wage workers.

Open-book management is when financial statements (the books) are shared with employees who have been taught what they mean. Employee recognition programs consist of personal attention, approval, and appreciation for a job well done. Pay-for-performance programs are variable compensation plans that pay employees on the basis of some performance measure.

To check your understanding of learning outcomes 16.1 – 16.4 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. What is motivation? Explain the three key elements of motivation.
2. Describe each of the four early theories of motivation.
3. How do goal-setting, reinforcement, and equity theories explain employee motivation?
4. What are the different job design approaches to motivation?
5. Explain the three key linkages in expectancy theory and their role in motivation.
6. What economic and cross-cultural challenges do managers face when motivating employees?
7. What challenges do managers face in motivating today's workforce?
8. Describe open book management, employee recognition, and pay-for-performance programs.
9. Most of us have to work for a living, and a job is a central part of our lives. So why do managers have to worry so much about employee motivation issues?
10. Can an individual be too motivated? Discuss.

PREPARING FOR: My Career

ETHICS DILEMMA

A cashier for a large chain bookstore in Manhattan is tired of the elaborate scripts she's required to recite during every transaction.[95] "It's tedious to blurt out those little phrases and customers just look away." And you've probably heard these scripted appeals if you've gone through a fast-food drive-through—would you like fries or a drink with that or would you like to make that a large? Retail workers today "get more micromanaging than Noah got from God" . . . all in an attempt to boost sales. What do you think of these techniques? Are they just simply annoying or do they contain some element of ethics? What ethical issues do you see in these attempts at efficiency and productivity? How could organizations ensure that such activities aren't ethically questionable?

SKILLS EXERCISE
Developing Your Motivating Employees Skill

About the Skill

Because a simple, all-encompassing set of motivational guidelines is not available, the following suggestions draw on the essence of what we know about motivating employees.

Steps in Practicing the Skill

1. **Recognize individual differences.** Almost every contemporary motivation theory recognizes that employees are not homogeneous. They have different needs. They also differ in terms of attitudes, personality, and other important individual variables.
2. **Match people to jobs.** A great deal of evidence shows the motivational benefits of carefully matching people to jobs. People who lack the necessary skills to perform successfully will be at a disadvantage.
3. **Use goals.** You should ensure that employees have hard, specific goals and feedback on how well they're doing in pursuit of those goals. In many cases, these goals should be participatively set.
4. **Ensure that goals are perceived as attainable.** Regardless of whether goals are actually attainable, employees who see goals as unattainable will reduce their effort. Be sure, therefore, that employees feel confident that increased efforts can lead to achieving performance goals.
5. **Individualize rewards.** Because employees have different needs, what acts as a reinforcer for one may not do so for another. Use your knowledge of employee differences to individualize the rewards over which you have control. Some of the more obvious rewards that you can allocate include pay, promotions, autonomy, and the opportunity to participate in goal setting and decision making.
6. **Link rewards to performance.** You need to make rewards contingent on performance. Rewarding factors other than performance will only reinforce the importance of those other factors. Key rewards such as pay increases and promotions should be given for the attainment of employees' specific goals.
7. **Check the system for equity.** Employees should perceive that rewards or outcomes are equal to the inputs given. On a simplistic level, experience, ability, effort, and other obvious inputs should explain differences in pay, responsibility, and other obvious outcomes.
8. **Don't ignore money.** It's easy to get so caught up in setting goals, creating interesting jobs, and providing opportunities for participation that you forget that money is a major reason why most people work. Thus, the allocation of performance-based wage increases, piece-work bonuses, employee stock ownership plans, and other pay incentives are important in determining employee motivation.

WORKING TOGETHER
Team Exercise

List five criteria (for example, pay, recognition, challenging work, friendships, status, the opportunity to do new things, the opportunity to travel, and so forth) that would be most important to you in a job. Rank them by order of importance.

Break into small groups of three or four and compare your responses. What patterns, if any, did you find?

MY TURN TO BE A MANAGER

- A good habit to get into if you don't already do it is goal-setting. Set goals for yourself using the suggestions from goal-setting theory. Write these down and keep them in a notebook. Track your progress toward achieving these goals.
- Describe a task that you've done recently for which you exerted a high level of effort. Explain your behavior, using any three of the motivation approaches described in this chapter.
- Pay attention to times when you're highly motivated and times when you're not as motivated. Write down a description of these. What accounts for the difference in your level of motivation?
- Interview three managers about how they motivate their employees. What have they found that works the best? Write up your findings in a report and be prepared to present it in class.
- Using the job characteristics model, redesign the following jobs to be more motivating: retail store sales associate, utility company meter reader, and checkout cashier at a discount store. In a written report, describe for each job at least two specific

actions you would take for each of the five core job dimensions.

- Do some serious thinking about what you want from your job after graduation. Make a list of what's important to you. Are you looking for a pleasant work environment, challenging work, flexible work hours, fun coworkers, or what? Discuss how you will discover whether a particular job will help you get those things.
- Steve's and Mary's recommended readings: Terry R. Bacon, *What People Want* (Davies-Black Publishing, 2006); Dennis W. Bakke, *Joy at Work* (PVG, 2005); Leon Martel, *High Performers* (Jossey-Bass, 2002); Jon R. Katzenbach, *Peak Performance* (Harvard Business School Press, 2000); and Steven Kerr (ed.), *Ultimate Rewards: What Really Motivates People to Achieve* (Harvard Business School Press, 1997).
- Find five different examples of employee recognition programs from organizations with which you're familiar or from articles that you find. Write a report describing your examples and evaluating what you think about the various approaches.
- Find the Web site of Great Place to Work Institute [www.greatplacetowork.com]. What does the Institute say about what makes an organization a great place to work? Next, locate the lists of the Best Companies to Work For. Choose one company from each of the international lists. Now research that company and describe what it does that makes it a great place to work.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What Motivates Me? What Are My Dominant Needs? What Rewards Do I Value Most? What's My View on the Nature of People? What's My Job's Motivating Potential? Do I Want an Enriched Job? How Confident Am I in My Ability to Succeed? What's My Attitude Toward Achievement? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Searching For?

Former Google vice president Adam Bosworth, who headed up the Google Health team, left the company to start his own Web-based consumer health service, Keas, Inc. The vision at Keas is to help people manage their health care online from staying healthy to recovering from an illness.

It gets more than 3,000 applications a day.[96] And it's no wonder! With a massage every other week, onsite laundry, swimming pool and spa, free delicious all-you-can-eat gourmet meals, what more could an employee want? Sounds like an ideal job, doesn't it? However, at Google, many people are demonstrating by their decisions to leave the company that all those perks (and these are just a few) aren't enough to keep them there. As one analyst said, "Yes, Google's making gobs of money. Yes, it's full of smart people. Yes, it's a wonderful place to work. So why are so many people leaving?"

Google has been in the top five list of "best companies to work for" by *Fortune* magazine for four years running and was number one on the list for two of those four years. But make no mistake. Google's executives decided to offer all these fabulous perks for several reasons: to attract the best knowledge workers it can in an intensely competitive, cutthroat market; to help employees work long hours and not have to deal with time-consuming personal chores; to show employees they're

valued; and to have employees remain Googlers (the name used for employees) for many years. But a number of Googlers have jumped ship and given up these fantastic benefits to go out on their own.

For instance, Sean Knapp and two colleagues, brothers Bismarck and Belsasar Lepe, came up with an idea on how to handle Web video. They left Google, or as one person put it, "expelled themselves from paradise to start their own company." When the threesome left the company, Google really wanted them and their project to stay. Google offered them a "blank check." But the trio realized they would do all the hard work and Google would own the product. So off they went, for the excitement of a start-up.

If this were an isolated occurrence, it would be easy to write off. But it's not. Other talented Google employees have done the same thing. In fact, there are so many of them who have left that they've formed an informal alumni club of ex-Googlers turned entrepreneurs.

Discussion Questions

1. What's it like to work at Google? (Hint: Go to Google's Web site and click on About Google. Find the section on Jobs at Google and go from there.) What's your assessment of the company's work environment?
2. Google is doing a lot for its employees, but not enough to retain some talented employees. Using what you've learned from studying the various motivation theories, what does this situation tell you about employee motivation?
3. What do you think is Google's biggest challenge in keeping employees motivated?
4. If you were managing a team of Google employees, how would you keep them motivated?

CASE APPLICATION 2

Best Practices at Best Buy

Do traditional workplaces reward long hours instead of efficient hours? Wouldn't it make more sense to have a workplace in which "people can do whatever they want, whenever they want, as long as the work gets done?" Well, that's the approach that Best Buy is taking.[97] And this radical workplace experiment, which obviously has many implications for employee motivation, has been an interesting and enlightening journey for the company.

In 2002, then CEO Brad Anderson (now the company's vice chairman) introduced a carefully crafted program called ROWE—Results-Only Work Environment. ROWE was the inspiration of two HRM managers at Best Buy, Cali Ressler and Jody Thompson, who had been given the task of taking a flexible work program that was in effect at corporate headquarters in Minnesota and developing it for everyone in the company. Ressler and Thompson said, "We realized that the flexible work program was successful as employee engagement was up, productivity was higher, but the problem was the participants were being viewed as 'not working.'" And that was a common reaction from managers who didn't really view flexible work employees as "really working because they aren't in the office working traditional hours." The two women set about to change that by creating a program in which "everyone would be evaluated solely on their results, not on how long they worked."

The first thing to understand about ROWE is that it's not about schedules. Instead, it's about changing the work culture of an organization, which is infinitely more difficult than changing schedules. With Anderson's blessing and support, they embarked on this journey to overhaul the company's corporate workplace.

The first step in implementing ROWE was a culture audit at company headquarters, which helped them establish a baseline for how employees perceived their work environment. After four months, the audit was repeated. During this time, Best Buy executives were being educated about ROWE and what it was all about. Obviously, it was important to have their commitment to the program. The second phase involved explaining the ROWE philosophy to all the

corporate employees and training managers on how to maintain control in a ROWE workplace. In the third phase, work unit teams were free to figure out how to implement the changes. Each team found a different way to keep the flexibility from spiraling into chaos. For instance, the public relations team got pagers to make sure someone was always available in an emergency. Some employees in the finance department used software that turns voice mail into e-mail files accessible from anywhere, making it easier for them to work at home. Four months after ROWE was implemented, Ressler and Thompson followed up with another culture check to see how everyone was doing.

So what's the bottom line for Best Buy? Productivity jumped 41 percent and voluntary turnover fell to 8 percent from 12 percent. They also discovered that when employees' engagement with their jobs increased, average annual sales increased 2 percent. And employees said that the freedom changed their lives. "They don't know if they work fewer hours—they've stopped counting—but they are more productive." As Ressler and Thompson stated, "Work isn't a place you go—it's something you do."

Discussion Questions

1. Describe the elements of ROWE. What do you think might be the advantages and drawbacks of this program?
2. Using one or more motivation theories from the chapter, explain why you think ROWE works.
3. What might be the challenges for managers in motivating employees in a program like this?
4. Does this sound like something you would be comfortable with? Why or why not?
5. What's your interpretation of the statement that "Work isn't a place you go—it's something you do"? Do you agree? Why or why not?

17 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Keith D. Lynn
Agency Field Executive
State Farm Insurance
Tulsa, OK

MY JOB:

I am an agency field executive for State Farm Insurance Companies and am responsible for managing 50 State Farm agents and their 125 team members in a geographic area encompassing 28,000 square miles. Because these agents are independent contractors, my management of them is only through persuasion and motivation. I do have a four-person team reporting to me directly to assist in the management and marketing efforts for this agency field office.

BEST PART OF MY JOB:

I have one of the best jobs in the world. I get to work with high-quality individuals who deliver on a promise to protect people from the unexpected and to help them reach their financial goals. What career could be better? More specifically, I have built personal relationships with many of those whom I support. This allows me to, in some ways, be a part of their lives and help them reach their goals and support them when they help others.

Managers *as* Leaders

LEARNING OUTCOMES

17.1 **Define** leader and leadership. *page 460*

17.2 **Compare** and contrast early theories of leadership. *page 460*

17.3 **Describe** the three major contingency theories of leadership. *page 464*

17.4 **Describe** contemporary views of leadership. *page 469*

17.5 **Discuss** contemporary issues affecting leadership. *page 472*

WORST PART OF MY JOB:

Balancing priorities. Many supposedly "urgent" tasks steal time every day. Many of these tasks are urgent but not important, yet they take time and keep me from succeeding in the more important functions of my job.

BEST MANAGEMENT ADVICE EVER RECEIVED:

As a second lieutenant in the army, my commanding officer was a lieutenant colonel who had been promoted up the ranks from private. He understood how to motivate people and how to get a group to function at the highest levels. His advice, which I have used in every position I have held, was: Treat everyone as you would want to be treated, be respectful of them no matter what their rank and they will ensure you succeed. Treat them badly, and you and your team will suffer.

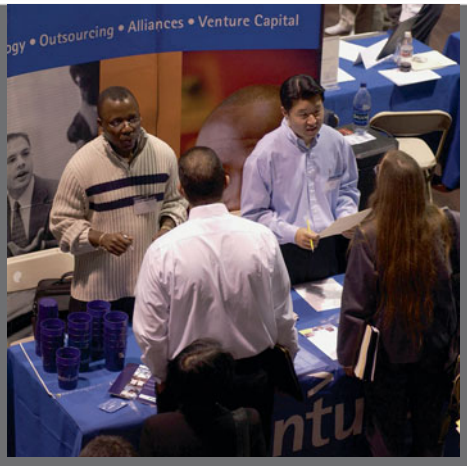
Too often, I find young prideful managers who treat those who report to them and even their former peers as inferiors, often insisting on respect. These individuals will never gain the loyalty and respect they demand.

A Manager's Dilemma

Not every company has a chief leadership officer. But Accenture does and London-based Adrian Lajtha fills that position.[1] So what exactly does a chief leadership officer do? As the world's largest consulting company, Accenture needs to deliberately and systematically develop leaders with the skills and abilities to help it be better prepared for the future. Lajtha is responsible for making that happen.

In his position, Lajtha has four main responsibilities: (1) leadership development and succession planning; (2) human-capital strategy, which entails thinking about the future of the company and what that means for the company's culture, leadership, and people; (3) all inclusion and diversity programs; and (4) corporate citizenship.

To see the importance of these actions, all you have to do is look at Accenture's growth in markets such as China and India, which will need organizational leaders from within those countries. Accenture launched high-potential programs in those countries (and in Russia, Mexico, and Korea) to "identify that group of people who we think are going to be the leaders five years from now." Such programs require a lot of trust between leaders and followers. How can Lajtha continue to build that trust?



What Would You Do?

Adrian Lajtha of Accenture is a good example of doing what is needed for an organization to have good leaders in place. He has created programs that identify employees with the potential to be leaders. Helping turn that potential into reality requires an environment and culture of trust. Accenture's leadership development programs are so effective that the company was ranked number 5 on the list of top 20 Best Companies for Leadership.[2] Why is leadership so important? Because it's the leaders in organizations who make things happen.

LEARNING OUTCOME
Define leader and leadership.

17.1

Who Are Leaders and What Is Leadership?

Let's begin by clarifying who leaders are and what leadership is. Our definition of a **leader** is someone who can influence others and who has managerial authority. **Leadership** is what leaders do. It's a process of leading a group and influencing that group to achieve its goals.

Are all managers leaders? Because leading is one of the four management functions, yes, ideally, all managers *should* be leaders. Thus, we're going to study leaders and leadership from a managerial perspective.[3] However, even though we're looking at these from a managerial perspective, we're aware that groups often have informal leaders who emerge. Although these informal leaders may be able to influence others, they have not been the focus of most leadership research and are not the types of leaders we're studying in this chapter.

Leaders and leadership, like motivation, are organizational behavior topics that have been researched a lot. Most of that research has been aimed at answering the question: *What is an effective leader*? We'll begin our study of leadership by looking at some early leadership theories that attempted to answer that question.

LEARNING OUTCOME
Compare and contrast early theories of leadership.

17.2

Early Leadership Theories

People have been interested in leadership since they started coming together in groups to accomplish goals. However, it wasn't until the early part of the twentieth century that researchers actually began to study leadership. These early leadership theories focused on the *leader* (leadership trait theories) and how the *leader interacted* with his or her group members (leadership behavior theories).

Leadership Trait Theories

Researchers at the University of Cambridge in England recently reported that men with longer ring fingers, compared to their index fingers, tended to be more successful in the frantic high-frequency trading in the London financial district.[4] What does a study of the finger lengths of financial traders have to do with trait theories of leadership? Well, that's also what leadership trait theories have attempted to do—identify certain traits that all leaders have.

Leadership research in the 1920s and 1930s focused on isolating leader traits—that is, characteristics—that would differentiate leaders from nonleaders. Some of the traits studied included physical stature, appearance, social class, emotional stability, fluency of speech, and sociability. Despite the best efforts of researchers, it proved impossible to identify a set of traits that would *always* differentiate a leader (the person) from a nonleader. Maybe it was a bit optimistic to think that a set of consistent and unique traits would apply universally to all effective leaders, no matter whether they were in charge of Kraft Foods, the Moscow Ballet, the country of France, a local collegiate chapter of Alpha Chi Omega, Ted's Malibu Surf Shop, or Oxford University. However, later attempts to identify traits consistently associated with *leadership* (the process of leading, not the person) were more successful. The seven traits shown to be associated with effective leadership are described briefly in Exhibit 17-1.[5]

Researchers eventually recognized that traits alone were not sufficient for identifying effective leaders since explanations based solely on traits ignored the interactions of leaders and their group members as well as situational factors. Possessing the appropriate traits only made it more likely that an individual would be an effective leader. Therefore, leadership research from the late 1940s to the mid-1960s concentrated on the preferred behavioral styles that leaders demonstrated. Researchers wondered whether something unique in what effective leaders *did*—in other words, in their *behavior*—was the key.

EXHIBIT 17-1
Seven Traits Associated with Leadership

1. *Drive.* Leaders exhibit a high effort level. They have a relatively high desire for achievement, they are ambitious, they have a lot of energy, they are tirelessly persistent in their activities, and they show initiative.
2. *Desire to lead.* Leaders have a strong desire to influence and lead others. They demonstrate the willingness to take responsibility.
3. *Honesty and integrity.* Leaders build trusting relationships with followers by being truthful or nondeceitful and by showing high consistency between word and deed.
4. *Self-confidence.* Followers look to leaders for an absence of self-doubt. Leaders, therefore, need to show self-confidence in order to convince followers of the rightness of their goals and decisions.
5. *Intelligence.* Leaders need to be intelligent enough to gather, synthesize, and interpret large amounts of information, and they need to be able to create visions, solve problems, and make correct decisions.
6. *Job-relevant knowledge.* Effective leaders have a high degree of knowledge about the company, industry, and technical matters. In-depth knowledge allows leaders to make well-informed decisions and to understand the implications of those decisions.
7. *Extraversion.* Leaders are energetic, lively people. They are sociable, assertive, and rarely silent or withdrawn.

Sources: Based on S. A. Kirkpatrick and E. A. Locke, "Leadership: Do Traits Really Matter?" *Academy of Management Executive,* May 1991, pp. 48–60; and T. A. Judge, J. E. Bono, R. Ilies, and M. W. Gerhardt, "Personality and Leadership: A Qualitative and Quantitative Review," *Journal of Applied Psychology,* August 2002, pp. 765–780.

leader
Someone who can influence others and who has managerial authority

leadership
A process of influencing a group to achieve goals

Leadership Behavior Theories

Bill Watkins, former CEO of disk drive manufacturer Seagate Technology, once responded when asked how he handled his board of directors, "You never ask board members what they think. You tell them what you're going to do." In contrast, Joe Lee, CEO of Darden Restaurants during the aftermath of 9/11, was focused on only two things that morning: his Darden people who were traveling and his company's Muslim colleagues.[6] These two leaders of successful companies, as you can see, behaved in two very different ways. What do we know about leader behavior and how can it help us in our understanding of what an effective leader is?

Researchers hoped that the **behavioral theories** approach would provide more definitive answers about the nature of leadership than did the trait theories. The four main leader behavior studies are summarized in Exhibit 17-2.

UNIVERSITY OF IOWA STUDIES. The University of Iowa studies explored three leadership styles to find which was the most effective.[7] The **autocratic style** described a leader who dictated work methods, made unilateral decisions, and limited employee participation. The **democratic style** described a leader who involved employees in decision making, delegated authority, and used feedback as an opportunity for coaching employees. Finally, the **laissez-faire style** leader let the group make decisions and complete the work in whatever way it saw fit. The researchers' results seemed to indicate that the democratic style contributed to both good quantity and quality of work. Had the answer to the question of the most effective leadership style been found? Unfortunately, it wasn't that simple. Later studies of the autocratic and democratic styles showed mixed results. For instance, the democratic style sometimes produced higher performance levels than the autocratic style, but at other times, it didn't. However, more consistent results were found when a measure of employee satisfaction was used. Group members were more satisfied under a democratic leader than under an autocratic one.[8]

EXHIBIT 17-2
Behavioral Theories of Leadership

	Behavioral Dimension	Conclusion
University of Iowa	*Democratic style:* involving subordinates, delegating authority, and encouraging participation *Autocratic style:* dictating work methods, centralizing decision making, and limiting participation *Laissez-faire style:* giving group freedom to make decisions and complete work	Democratic style of leadership was most effective, although later studies showed mixed results.
Ohio State	*Consideration:* being considerate of followers' ideas and feelings *Initiating structure:* structuring work and work relationships to meet job goals	High–high leader (high in consideration and high in initiating structure) achieved high subordinate performance and satisfaction, but not in all situations
University of Michigan	*Employee oriented:* emphasized interpersonal relationships and taking care of employees' needs *Production oriented:* emphasized technical or task aspects of job	Employee-oriented leaders were associated with high group productivity and higher job satisfaction.
Managerial Grid	*Concern for people:* measured leader's concern for subordinates on a scale of 1 to 9 (low to high) *Concern for production:* measured leader's concern for getting job done on a scale 1 to 9 (low to high)	Leaders performed best with a 9,9 style (high concern for production and high concern for people).

Now leaders had a dilemma! Should they focus on achieving higher performance or on achieving higher member satisfaction? This recognition of the dual nature of a leader's behavior—that is, focus on the task and focus on the people—was also a key characteristic of the other behavioral studies.

THE OHIO STATE STUDIES. The Ohio State studies identified two important dimensions of leader behavior.[9] Beginning with a list of more than 1,000 behavioral dimensions, the researchers eventually narrowed it down to just two that accounted for most of the leadership behavior described by group members. The first was called **initiating structure**, which referred to the extent to which a leader defined his or her role and the roles of group members in attaining goals. It included behaviors that involved attempts to organize work, work relationships, and goals. The second was called **consideration**, which was defined as the extent to which a leader had work relationships characterized by mutual trust and respect for group members' ideas and feelings. A leader who was high in consideration helped group members with personal problems, was friendly and approachable, and treated all group members as equals. He or she showed concern for (was considerate of) his or her followers' comfort, well-being, status, and satisfaction. Research found that a leader who was high in both initiating structure and consideration (a **high–high leader**) sometimes achieved high group task performance and high group member satisfaction, but not always.

UNIVERSITY OF MICHIGAN STUDIES. Leadership studies conducted at the University of Michigan at about the same time as those being done at Ohio State also hoped to identify behavioral characteristics of leaders that were related to performance effectiveness. The Michigan group also came up with two dimensions of leadership behavior, which they labeled employee oriented and production oriented.[10] Leaders who were *employee oriented* were described as emphasizing interpersonal relationships. The *production-oriented* leaders, in contrast, tended to emphasize the task aspects of the job. Unlike the other studies, the Michigan researchers concluded that leaders who were employee oriented were able to get high group productivity and high group member satisfaction.

THE MANAGERIAL GRID. The behavioral dimensions from these early leadership studies provided the basis for the development of a two-dimensional grid for appraising leadership styles. This **managerial grid** used the behavioral dimensions "concern for people" (the vertical part of the grid) and "concern for production" (the horizontal part of the grid) and evaluated a leader's use of these behaviors, ranking them on a scale from 1 (low) to 9 (high).[11] Although the grid had 81 potential categories into which a leader's behavioral style might fall, only five styles were named: impoverished management (1,1 or low concern for production, low concern for people), task management (9,1 or high concern for production, low concern for people), middle-of-the-road management (5,5 or medium concern for production, medium concern for people), country club management (1,9 or low concern for production, high concern for people), and team management (9,9 or high concern for production, high concern for people). Of these five styles, the researchers concluded that managers performed best when using a 9,9 style. Unfortunately, the grid offered no answers to the question of what made a manager an effective leader; it only

behavioral theories
Leadership theories that identify behaviors that differentiated effective leaders from ineffective leaders

autocratic style
A leader who dictates work methods, makes unilateral decisions, and limits employee participation

democratic style
A leader who involves employees in decision making, delegates authority, and uses feedback as an opportunity for coaching employees

laissez-faire style
A leader who lets the group make decisions and complete the work in whatever way it sees fit

initiating structure
The extent to which a leader defines his or her role and the roles of group members in attaining goals

consideration
The extent to which a leader has work relationships characterized by mutual trust and respect for group members' ideas and feelings

high–high leader
A leader high in both initiating structure and consideration behaviors

managerial grid
A two-dimensional grid for appraising leadership styles

At the U.S. Army's largest overseas medical research laboratory, located in Bangkok, Thailand, a scientist prepares a specimen while working on a vaccine against dengue fever. This scientist and other medical researchers at the laboratory have a high level of follower readiness. As responsible, experienced, and mature employees, they are both able and willing to complete their tasks under leadership that gives them freedom to make and implement decisions. This leader–follower relationship is consistent with Hersey and Blanchard's situational leadership theory in acknowledging the importance of followers in leadership effectiveness.

provided a framework for conceptualizing leadership style. In fact, little substantive evidence supports the conclusion that a 9,9 style is most effective in all situations.[12]

Leadership researchers were discovering that predicting leadership success involved something more complex than isolating a few leader traits or preferable behaviors. They began looking at situational influences. Specifically, which leadership styles might be suitable in different situations and what were these different situations?

17.3 Contingency Theories of Leadership

LEARNING OUTCOME
Describe the three major contingency theories of leadership.

"The corporate world is filled with stories of leaders who failed to achieve greatness because they failed to understand the context they were working in."[13] In this section we examine three contingency theories—Fiedler, Hersey-Blanchard, and path-goal. Each looks at defining leadership style and the situation, and attempts to answer the *if-then* contingencies (that is, *if* this is the context or situation, *then* this is the best leadership style to use).

The Fiedler Model

The first comprehensive contingency model for leadership was developed by Fred Fiedler.[14] The **Fiedler contingency model** proposed that effective group performance depended upon properly matching the leader's style and the amount of control and influence in the situation. The model was based on the premise that a certain leadership style would be most effective in different types of situations. The keys were to (1) define those leadership styles and the different types of situations, and then (2) identify the appropriate combinations of style and situation.

Fiedler proposed that a key factor in leadership success was an individual's basic leadership style, either task oriented or relationship oriented. To measure a leader's style, Fiedler developed the **least-preferred coworker (LPC) questionnaire**. This questionnaire contained 18 pairs of contrasting adjectives—for example, pleasant–unpleasant, cold–warm, boring–interesting, or friendly–unfriendly. Respondents were asked to think of all the coworkers they had ever had and to describe that one person they *least enjoyed* working with by rating him or her on a scale of 1 to 8 for each of the 18 sets of adjectives (the 8 always described the positive adjective out of the pair and the 1 always described the negative adjective out of the pair).

If the leader described the least preferred coworker in relatively positive terms (in other words, a "high" LPC score—a score of 64 or above), then the respondent was primarily

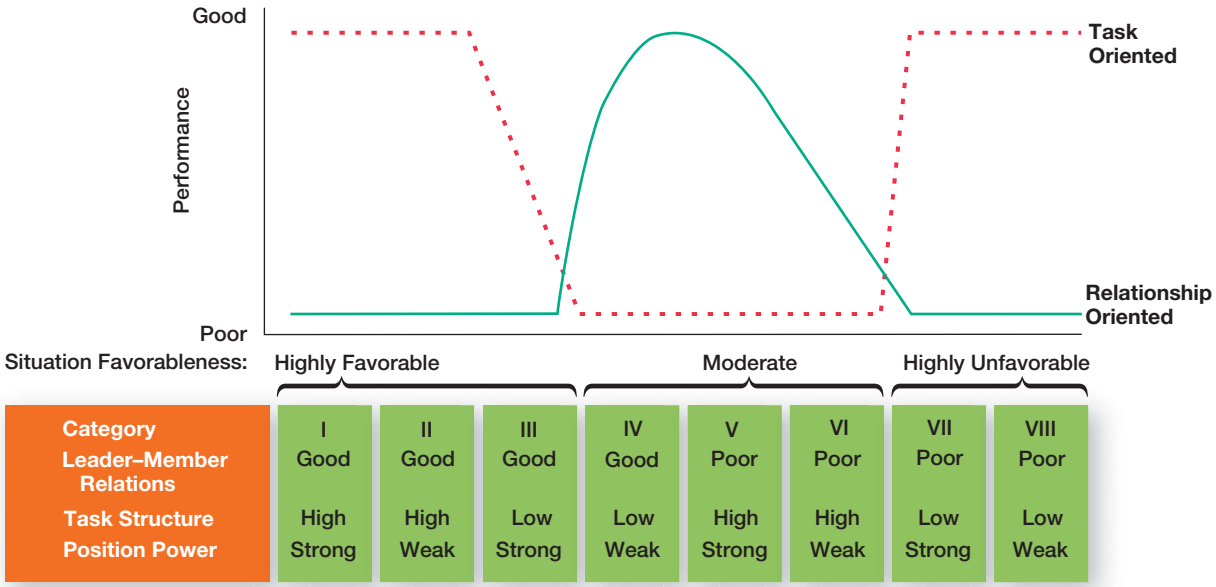
interested in good personal relations with coworkers and the style would be described as *relationship oriented.* In contrast, if you saw the least preferred coworker in relatively unfavorable terms (a low LPC score—a score of 57 or below), you were primarily interested in productivity and getting the job done; thus, your style would be labeled as *task oriented.* Fiedler did acknowledge that a small number of people might fall in between these two extremes and not have a cut-and-dried leadership style. One other important point is that Fiedler assumed a person's leadership style was fixed regardless of the situation. In other words, if you were a relationship-oriented leader, you'd always be one, and the same for task-oriented.

After an individual's leadership style had been assessed through the LPC, it was time to evaluate the situation in order to be able to match the leader with the situation. Fiedler's research uncovered three contingency dimensions that defined the key situational factors in leader effectiveness.

- **Leader–member relations**: the degree of confidence, trust, and respect employees had for their leader; rated as either good or poor.
- **Task structure**: the degree to which job assignments were formalized and structured; rated as either high or low.
- **Position power**: the degree of influence a leader had over activities such as hiring, firing, discipline, promotions, and salary increases; rated as either strong or weak.

Each leadership situation was evaluated in terms of these three contingency variables, which when combined produced eight possible situations that were either favorable or unfavorable for the leader. (See the bottom of the chart in Exhibit 17-3.) Situations I, II, and III were classified as highly favorable for the leader. Situations IV, V, and VI were

EXHIBIT 17-3
The Fiedler Model



Fiedler contingency model
A leadership theory proposing that effective group performance depends upon the proper match between a leader's style and the degree to which the situation allows the leader to control and influence

least-preferred coworker (LPC) questionnaire
A questionnaire that measures whether a leader is task or relationship oriented

leader–member relations
One of Fiedler's situational contingencies that describes the degree of confidence, trust, and respect employees had for their leader

task structure
One of Fiedler's situational contingencies that describes the degree to which job assignments are formalized and structured

position power
One of Fiedler's situational contingencies that describes the degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases

moderately favorable for the leader. And situations VII and VIII were described as highly unfavorable for the leader.

Once Fiedler had described the leader variables and the situational variables, he had everything he needed to define the specific contingencies for leadership effectiveness. To do so, he studied 1,200 groups where he compared relationship-oriented versus task-oriented leadership styles in each of the eight situational categories. He concluded that task-oriented leaders performed better in very favorable situations and in very unfavorable situations. (See the top of Exhibit 17-3 where performance is shown on the vertical axis and situation favorableness is shown on the horizontal axis.) On the other hand, relationship-oriented leaders performed better in moderately favorable situations.

Because Fiedler treated an individual's leadership style as fixed, only two ways could improve leader effectiveness. First, you could bring in a new leader whose style better fit the situation. For instance, if the group situation was highly unfavorable but was led by a relationship-oriented leader, the group's performance could be improved by replacing that person with a task-oriented leader. The second alternative was to change the situation to fit the leader. This could be done by restructuring tasks; by increasing or decreasing the power that the leader had over factors such as salary increases, promotions, and disciplinary actions; or by improving the leader–member relations.

Research testing the overall validity of Fiedler's model has shown considerable evidence to support the model.[15] However, his theory wasn't without criticisms. The major one is that it's probably unrealistic to assume that a person can't change his or her leadership style to fit the situation. Effective leaders can, and do, change their styles. Another is that the LPC wasn't very practical. Finally, the situation variables were difficult to assess.[16] Despite its shortcomings, the Fiedler model showed that effective leadership style needed to reflect situational factors.

Hersey and Blanchard's Situational Leadership Theory

Paul Hersey and Ken Blanchard developed a leadership theory that has gained a strong following among management development specialists.[17] This model, called **situational leadership theory (SLT)**, is a contingency theory that focuses on followers' readiness. Before we proceed, two points need clarification: Why a leadership theory focuses on the followers, and what is meant by the term *readiness*.

The emphasis on the followers in leadership effectiveness reflects the reality that it *is* the followers who accept or reject the leader. Regardless of what the leader does, the group's effectiveness depends on the actions of the followers. This important dimension has been overlooked or underemphasized in most leadership theories. And **readiness**, as defined by Hersey and Blanchard, refers to the extent to which people have the ability and willingness to accomplish a specific task.

SLT uses the same two leadership dimensions that Fiedler identified: task and relationship behaviors. However, Hersey and Blanchard go a step further by considering each as either high or low and then combining them into four specific leadership styles described as follows:

- *Telling* (high task–low relationship): The leader defines roles and tells people what, how, when, and where to do various tasks.
- *Selling* (high task–high relationship): The leader provides both directive and supportive behavior.
- *Participating* (low task–high relationship): The leader and followers share in decision making; the main role of the leader is facilitating and communicating.
- *Delegating* (low task–low relationship): The leader provides little direction or support.

The final component in the model is the four stages of follower readiness:

- *R1:* People are both *unable and unwilling* to take responsibility for doing something. Followers aren't competent or confident.

- *R2:* People are *unable but willing* to do the necessary job tasks. Followers are motivated but lack the appropriate skills.
- *R3:* People are *able but unwilling* to do what the leader wants. Followers are competent, but don't want to do something.
- *R4:* People are both *able and willing* to do what is asked of them.

SLT essentially views the leader–follower relationship as like that of a parent and a child. Just as a parent needs to relinquish control when a child becomes more mature and responsible, so, too, should leaders. As followers reach higher levels of readiness, the leader responds not only by decreasing control over their activities but also decreasing relationship behaviors. The SLT says if followers are at R1 (*unable* and *unwilling* to do a task), the leader needs to use the telling style and give clear and specific directions; if followers are at R2 (*unable* and *willing*), the leader needs to use the selling style and display high task orientation to compensate for the followers' lack of ability and high relationship orientation to get followers to "buy into" the leader's desires; if followers are at R3 (*able* and *unwilling*), the leader needs to use the participating style to gain their support; and if employees are at R4 (both *able* and *willing*), the leader doesn't need to do much and should use the delegating style.

SLT has intuitive appeal. It acknowledges the importance of followers and builds on the logic that leaders can compensate for ability and motivational limitations in their followers. However, research efforts to test and support the theory generally have been disappointing.[18] Possible explanations include internal inconsistencies in the model as well as problems with research methodology. Despite its appeal and wide popularity, we have to be cautious about any enthusiastic endorsement of SLT.

Path-Goal Model

Another approach to understanding leadership is **path-goal theory**, which states that the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization. Developed by Robert House, path-goal theory takes key elements from the expectancy theory of motivation.[19] The term *path-goal* is derived from the belief that effective leaders remove the roadblocks and pitfalls so that followers have a clearer path to help them get from where they are to the achievement of their work goals.

House identified four leadership behaviors:

- *Directive leader:* Lets subordinates know what's expected of them, schedules work to be done, and gives specific guidance on how to accomplish tasks.
- *Supportive leader:* Shows concern for the needs of followers and is friendly.
- *Participative leader:* Consults with group members and uses their suggestions before making a decision.
- *Achievement oriented leader:* Sets challenging goals and expects followers to perform at their highest level.

In contrast to Fiedler's view that a leader couldn't change his or her behavior, House assumed that leaders are flexible and can display any or all of these leadership styles depending on the situation.

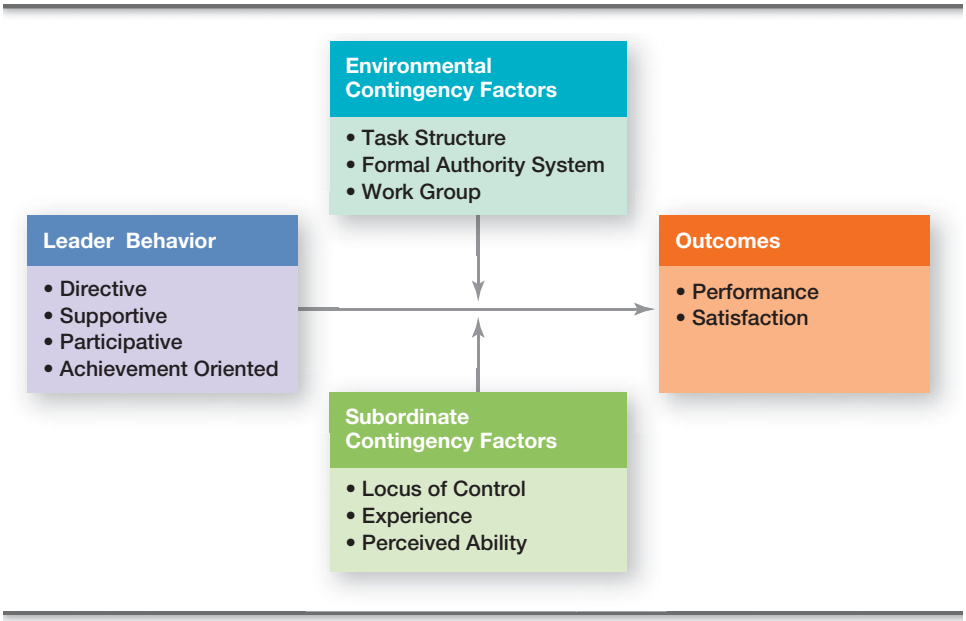
As Exhibit 17-4 illustrates, path-goal theory proposes two situational or contingency variables that moderate the leadership behavior–outcome relationship: those in the *environment* that are outside the control of the follower (factors including task structure, formal authority

situational leadership theory (SLT)
A leadership contingency theory that focuses on followers' readiness

readiness
The extent to which people have the ability and willingness to accomplish a specific task

path-goal theory
A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization

EXHIBIT 17-4
Path-Goal Model



system, and the work group) and those that are part of the personal characteristics of the *follower* (including locus of control, experience, and perceived ability). Environmental factors determine the type of leader behavior required if subordinate outcomes are to be maximized; personal characteristics of the follower determine how the environment and leader behavior are interpreted. The theory proposes that a leader's behavior won't be effective if it's redundant with what the environmental structure is providing or is incongruent with follower characteristics. For example, some predictions from path-goal theory are:

- Directive leadership leads to greater satisfaction when tasks are ambiguous or stressful than when they are highly structured and well laid out. The followers aren't sure what to do, so the leader needs to give them some direction.
- Supportive leadership results in high employee performance and satisfaction when subordinates are performing structured tasks. In this situation, the leader only needs to support followers, not tell them what to do.
- Directive leadership is likely to be perceived as redundant among subordinates with high perceived ability or with considerable experience. These followers are quite capable so they don't need a leader to tell them what to do.
- The clearer and more bureaucratic the formal authority relationships, the more leaders should exhibit supportive behavior and deemphasize directive behavior. The organizational situation has provided the structure as far as what is expected of followers, so the leader's role is simply to support.
- Directive leadership will lead to higher employee satisfaction when there is substantive conflict within a work group. In this situation, the followers need a leader who will take charge.
- Subordinates with an internal locus of control will be more satisfied with a participative style. Because these followers believe that they control what happens to them, they prefer to participate in decisions.
- Subordinates with an external locus of control will be more satisfied with a directive style. These followers believe that what happens to them is a result of the external environment so they would prefer a leader that tells them what to do.
- Achievement-oriented leadership will increase subordinates' expectancies that effort will lead to high performance when tasks are ambiguously structured. By setting challenging goals, followers know what the expectations are.

Testing path-goal theory has not been easy. A review of the research suggests mixed support.[20] To summarize the model, however, an employee's performance and satisfaction

are likely to be positively influenced when the leader chooses a leadership style that compensates for shortcomings in either the employee or the work setting. However, if the leader spends time explaining tasks that are already clear or when the employee has the ability and experience to handle them without interference, the employee is likely to see such directive behavior as redundant or even insulting.

Contemporary Views of Leadership

17.4

LEARNING OUTCOME
Describe contemporary views of leadership.

What are the latest views of leadership? We want to look at four of these views: leader–member exchange theory, transformational-transactional leadership, charismatic-visionary leadership, and team leadership.

Leader–Member Exchange (LMX) Theory

Have you ever been in a group in which the leader had "favorites" who made up his or her in-group? If so, that's the premise behind leader–member exchange (LMX) theory.[21] **Leader–member exchange theory (LMX)** says that leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

LMX theory suggests that early on in the relationship between a leader and a given follower, a leader will implicitly categorize a follower as an "in" or as an "out." That relationship tends to remain fairly stable over time. Leaders also encourage LMX by rewarding those employees with whom they want a closer linkage and punishing those with whom they do not.[22] For the LMX relationship to remain intact, however, both the leader and the follower must "invest" in the relationship.

It's not exactly clear how a leader chooses who falls into each category, but evidence shows that in-group members have demographic, attitude, personality, and even gender similarities with the leader or they have a higher level of competence than out-group members.[23] The leader does the choosing, but the follower's characteristics drive the decision.

Research on LMX has been generally supportive. It appears that leaders do differentiate among followers; that these disparities are not random; and followers with in-group status will have higher performance ratings, engage in more helping or "citizenship" behaviors at work, and report greater satisfaction with their boss.[24] This probably shouldn't be surprising since leaders invest their time and other resources in those whom they expect to perform best.

Ajay Banga, CEO of MasterCard, has had well-rounded leadership experiences.[25] Born in India, Banga honed his leadership skills at Nestlé and PepsiCo before moving to Citigroup to head up its Asia-Pacific division. Citigroup was a challenging situation as he found a vast banking group that "worked fluidly in its product clusters but lacked coordination, synergy, or vision." Banga undertook the painful process of breaking down those "silos and stitching them together again under a single umbrella structure." When he was offered a position at MasterCard as president and chief operating officer, Banga jumped at the chance. Now as CEO, Banga is the company's cheerleader, shaking up the company's low-key corporate culture with hugs and fist bumps in the hallways. One analyst describes him as "energetic, open, and engaging."

Transformational-Transactional Leadership

Many early leadership theories viewed leaders as **transactional leaders**; that is, leaders that lead primarily by using social exchanges (or transactions). Transactional

leader–member exchange theory (LMX)
The leadership theory that says leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction

transactional leaders
Leaders who lead primarily by using social exchanges (or transactions)

What makes a leader successful is:

- Open and honest communication.
- Take the time to select the right people. (No matter how hard you try to make someone successful: "You can't send a chicken to eagle school in the hope it will fly.")
- Develop a winning game plan and overall strategy and then give your employees the latitude and trust needed to do their jobs.
- Understand and communicate what is important—consistently and constantly!

leaders guide or motivate followers to work toward established goals by exchanging rewards for their productivity.[26] But another type of leader—a **transformational leader**—stimulates and inspires (transforms) followers to achieve extraordinary outcomes. Examples include Jim Goodnight of SAS Institute and Andrea Jung of Avon. They pay attention to the concerns and developmental needs of individual followers; they change followers' awareness of issues by helping those followers look at old problems in new ways; and they are able to excite, arouse, and inspire followers to exert extra effort to achieve group goals.

Transactional and transformational leadership shouldn't be viewed as opposing approaches to getting things done.[27] Transformational leadership develops from transactional leadership. Transformational leadership produces levels of employee effort and performance that go beyond what would occur with a transactional approach alone. Moreover, transformational leadership is more than charisma, because the transformational leader attempts to instill in followers the ability to question not only established views but those views held by the leader.[28]

The evidence supporting the superiority of transformational leadership over transactional leadership is overwhelmingly impressive. For instance, studies that looked at managers in different settings, including the military and business, found that transformational leaders were evaluated as more effective, higher performers, more promotable than their transactional counterparts, and more interpersonally sensitive.[29] In addition, evidence indicates that transformational leadership is strongly correlated with lower turnover rates and higher levels of productivity, employee satisfaction, creativity, goal attainment, follower well-being, and corporate entrepreneurship, especially in start-up firms.[30]

Charismatic-Visionary Leadership

Jeff Bezos, founder and CEO of Amazon.com, is a person who exudes energy, enthusiasm, and drive.[31] He's fun-loving (his legendary laugh has been described as a flock of Canadian geese on nitrous oxide), but has pursued his vision for Amazon with serious intensity and has demonstrated an ability to inspire his employees through the ups and downs of a rapidly growing company. Bezos is what we call a **charismatic leader**—that is, an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

Several authors have attempted to identify personal characteristics of the charismatic leader.[32] The most comprehensive analysis identified five such characteristics: they have a vision, the ability to articulate that vision, a willingness to take risks to achieve that vision, a sensitivity to both environmental constraints and follower needs, and behaviors that are out of the ordinary.[33]

An increasing body of evidence shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.[34] Although one study found that charismatic CEOs had no impact on subsequent organizational performance, charisma is still believed to be a desirable leadership quality.[35]

If charisma is desirable, can people learn to be charismatic leaders? Or are charismatic leaders born with their qualities? Although a small number of experts still think that charisma can't be learned, most believe that individuals can be trained to exhibit charismatic behaviors.[36] For example, researchers have succeeded in teaching undergraduate students to "be" charismatic. How? They were taught to articulate a far-reaching goal, communicate high performance expectations, exhibit confidence in the ability of subordinates to meet those expectations, and empathize with the needs of their subordinates; they learned to project a powerful, confident, and dynamic presence; and they practiced using a captivating and engaging voice tone. The researchers also trained the student leaders to use charismatic nonverbal behaviors, including leaning toward the follower when communicating, maintaining direct eye contact, and having a relaxed posture and animated facial expressions. In groups with these "trained" charismatic leaders, members had higher task performance, higher task adjustment, and better adjustment to the leader and to the group than did group members who worked in groups led by noncharismatic leaders.

One last thing we should say about charismatic leadership is that it may not always be necessary to achieve high levels of employee performance. It may be most appropriate

when the follower's task has an ideological purpose or when the environment involves a high degree of stress and uncertainty.[37] This distinction may explain why, when charismatic leaders surface, it's more likely to be in politics, religion, or wartime; or when a business firm is starting up or facing a survival crisis. For example, Martin Luther King Jr. used his charisma to bring about social equality through nonviolent means, and Steve Jobs achieved unwavering loyalty and commitment from Apple's technical staff in the early 1980s by articulating a vision of personal computers that would dramatically change the way people lived.

Although the term *vision* is often linked with charismatic leadership, **visionary leadership** is different; it's the ability to create and articulate a realistic, credible, and attractive vision of the future that improves upon the present situation.[38] This vision, if properly selected and implemented, is so energizing that it "in effect jump-starts the future by calling forth the skills, talents, and resources to make it happen."[39]

An organization's vision should offer clear and compelling imagery that taps into people's emotions and inspires enthusiasm to pursue the organization's goals. It should be able to generate possibilities that are inspirational and unique and offer new ways of doing things that are clearly better for the organization and its members. Visions that are clearly articulated and have powerful imagery are easily grasped and accepted. For instance, Michael Dell (Dell Computer) created a vision of a business that sells and delivers customized PCs directly to customers in less than a week. The late Mary Kay Ash's vision of women as entrepreneurs selling products that improved their self-image gave impetus to her cosmetics company, Mary Kay Cosmetics.

Team Leadership

Because leadership is increasingly taking place within a team context and more organizations are using work teams, the role of the leader in guiding team members has become increasingly important. The role of team leader *is* different from the traditional leadership role, as J. D. Bryant, a supervisor at Texas Instruments' Forest Lane plant in Dallas, discovered.[41] One day he was contentedly overseeing a staff of 15 circuit board assemblers. The next day he was told that the company was going to use employee teams and he was to become a "facilitator." He said, "I'm supposed to teach the teams everything I know and then let them make their own decisions." Confused about his new role, he admitted, "There was no clear plan on what I was supposed to do." What *is* involved in being a team leader?

Many leaders are not equipped to handle the change to employee teams. As one consultant noted, "Even the most capable managers have trouble making the transition because all the command-and-control type things they were encouraged to do before are no longer appropriate. There's no reason to have any skill or sense of this."[42] This same consultant estimated that "probably 15 percent of managers are natural team leaders; another 15 percent could never lead a team because it runs counter to their personality—that is, they're unable to sublimate their dominating style for the good of the team. Then there's that huge group in the middle: Team leadership doesn't come naturally to them, but they can learn it."[43]

The challenge for many managers is learning how to become an effective team leader. They have to learn skills such as patiently sharing information, being able to trust others and to give up authority, and understanding when to intervene. And effective team leaders have mastered the difficult balancing act of knowing when to leave their teams alone and when to get involved. New team leaders may try to retain too much control at a time when team members need more autonomy, or they may abandon their teams at times when the teams need support and help.[44]

by the numbers[40]

59 percent of companies say that what they value in leaders is strategic thinking.

75 percent of companies say that leadership development programs better allow employees to accomplish goals and strategies.

68 percent of companies say that everyone in their company has the opportunity to develop and practice the capabilities needed to lead others.

72 percent of employees want a leader who can create a shared vision.

54 percent of companies say they have a process in place to identify potential leaders.

98 percent of U.S. CEOs say they are spending more time on regulatory issues; only 28 percent say they're spending more time on day-to-day management.

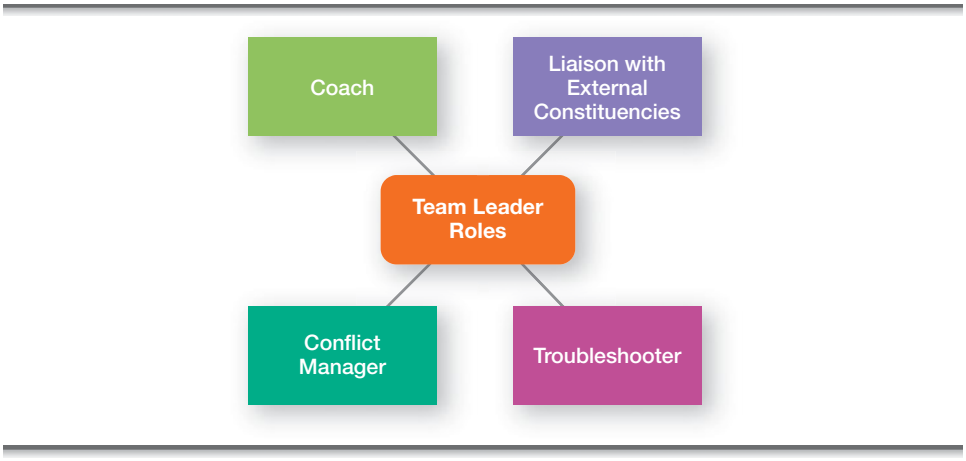
61 percent of Indian leaders said that envisioning and articulating a path to the future is most critical to their exercise of leadership.

transformational leaders
Leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes

charismatic leader
An enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways

visionary leadership
The ability to create and articulate a realistic, credible, and attractive vision of the future that improves upon the present situation

EXHIBIT 17-5
Team Leadership Roles



One study looking at organizations that reorganized themselves around employee teams found certain common responsibilities of all leaders. These leader responsibilities included coaching, facilitating, handling disciplinary problems, reviewing team and individual performance, training, and communication.[45] However, a more meaningful way to describe the team leader's job is to focus on two priorities: (1) managing the team's external boundary and (2) facilitating the team process.[46] These priorities entail four specific leadership roles. (See Exhibit 17-5.)

LEARNING OUTCOME 17.5
Discuss contemporary issues affecting leadership.

Leadership Issues in the Twenty-First Century

It's not easy being a chief information officer (CIO) today. The person responsible for managing a company's information technology activities will find that the task comes with a lot of external and internal pressures. Technology continues to change rapidly—almost daily, it sometimes seems. Business costs continue to rise. Rob Carter, CIO of FedEx, is on the hot seat facing such challenges.[47] He's responsible for all the computer and communication systems that provide around-the-clock and around-the-globe support for FedEx's products and services. If anything goes wrong, you know who takes the heat. However, Carter has been an effective leader in this seemingly chaotic environment.

Leading effectively in today's environment is likely to involve such challenging circumstances for many leaders. In addition, twenty-first-century leaders do face some important leadership issues. In this section, we look at these issues that include managing power, developing trust, empowering employees, leading across cultures, and becoming an effective leader.

Let's Get Real

F2F

Someone I think is a good leader and why:

- Colin Powell was able to take a diverse group and turn them into a high-functioning team. My favorite statement of his: "The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you do not care. Either case is a failure of leadership."

Managing Power

Where do leaders get their power—that is, their right and capacity to influence work actions or decisions? Five sources of leader power have been identified: legitimate, coercive, reward, expert, and referent.[48]

Legitimate power and authority are the same. Legitimate power represents the power a leader has as a result of his or her position in the organization. Although people in positions of authority are also likely to have reward and coercive power, legitimate power is broader than the power to coerce and reward.

Coercive power is the power a leader has to punish or control. Followers react to this power out of fear of the negative results that might occur if they don't comply. Managers typically have some coercive power, such as being able to suspend or demote employees or to assign them work they find unpleasant or undesirable.

Reward power is the power to give positive rewards. A reward can be anything that a person values such as money, favorable performance appraisals, promotions, interesting work assignments, friendly colleagues, and preferred work shifts or sales territories.

Expert power is power that's based on expertise, special skills, or knowledge. If an employee has skills, knowledge, or expertise that's critical to a work group, that person's expert power is enhanced.

Finally, **referent power** is the power that arises because of a person's desirable resources or personal traits. If I admire you and want to be associated with you, you can exercise power over me because I want to please you. Referent power develops out of admiration of another and a desire to be like that person.

Most effective leaders rely on several different forms of power to affect the behavior and performance of their followers. For example, the commanding officer of one of Australia's state-of-the-art submarines, the HMAS *Sheean,* employs different types of power in managing his crew and equipment. He gives orders to the crew (legitimate), praises them (reward), and disciplines those who commit infractions (coercive). As an effective leader, he also strives to have expert power (based on his expertise and knowledge) and referent power (based on his being admired) to influence his crew.

Developing Trust

In today's uncertain environment, an important consideration for leaders is building trust and credibility, both of which can be extremely fragile. Before we can discuss ways leaders can build trust and credibility, we have to know what trust and credibility are and why they're so important.

The main component of credibility is honesty. Surveys show that honesty is consistently singled out as the number one characteristic of admired leaders. "Honesty is absolutely essential to leadership. If people are going to follow someone willingly, whether it be into battle or into the boardroom, they first want to assure themselves that the person is worthy of their trust."[49] In addition to being honest, credible leaders are competent and inspiring. They are personally able to effectively communicate their confidence and enthusiasm. Thus, followers judge a leader's **credibility** in terms of his or her honesty, competence, and ability to inspire.

Trust is closely entwined with the concept of credibility, and, in fact, the terms are often used interchangeably. **Trust** is defined as the belief in the integrity, character, and ability of a leader. Followers who trust a leader are willing to be vulnerable to the leader's actions because they are confident that their rights and interests will not be abused.[50] Research has identified five dimensions that make up the concept of trust:[51]

- *Integrity:* honesty and truthfulness
- *Competence:* technical and interpersonal knowledge and skills
- *Consistency:* reliability, predictability, and good judgment in handling situations
- *Loyalty:* willingness to protect a person, physically and emotionally
- *Openness:* willingness to share ideas and information freely

Of these five dimensions, integrity seems to be the most critical when someone assesses another's trustworthiness.[52] Both integrity and competence were seen in our earlier discussion of leadership traits found to be consistently associated with leadership. Workplace changes have reinforced why such leadership qualities are important. For instance, the trends toward empowerment and self-managed work teams have reduced many of the traditional control mechanisms used to monitor employees. If a work team is free to schedule its own work, evaluate its own performance, and even make its own hiring decisions, trust becomes critical. Employees have to trust managers to treat them fairly, and managers have to trust employees to conscientiously fulfill their responsibilities.

legitimate power
The power a leader has as a result of his or her position in the organization

coercive power
The power a leader has to punish or control

reward power
The power a leader has to give positive rewards

expert power
Power that's based on expertise, special skills, or knowledge

referent power
Power that arises because of a person's desirable resources or personal traits

credibility
The degree to which followers perceive someone as honest, competent, and able to inspire

trust
The belief in the integrity, character, and ability of a leader

EXHIBIT 17-6
Building Trust

Practice openness.
Be fair.
Speak your feelings.
Tell the truth.
Show consistency.
Fulfill your promises.
Maintain confidences.
Demonstrate competence.

Also, leaders have to increasingly lead others who may not be in their immediate work group or may even be physically separated—members of cross-functional or virtual teams, individuals who work for suppliers or customers, and perhaps even people who represent other organizations through strategic alliances. These situations don't allow leaders the luxury of falling back on their formal positions for influence. Many of these relationships, in fact, are fluid and fleeting. So the ability to quickly develop trust and sustain that trust is crucial to the success of the relationship.

Why is it important that followers trust their leaders? Research has shown that trust in leadership is significantly related to positive job outcomes including job performance, organizational citizenship behavior, job satisfaction, and organizational commitment.[53] Given the importance of trust to effective leadership, how can leaders build trust? Exhibit 17-6 lists some suggestions. (Also, see the Building Your Skill exercise in Chapter 5.)[54]

Now, more than ever, managerial and leadership effectiveness depends on the ability to gain the trust of followers.[55] Downsizing, financial challenges, and the increased use of temporary employees have undermined employees' trust in their leaders and shaken the confidence of investors, suppliers, and customers. A survey found that only 39 percent of U.S. employees and 51 percent of Canadian employees trusted their executive leaders.[56] Today's leaders are faced with the challenge of rebuilding and restoring trust with employees and with other important organizational stakeholders.

Empowering Employees

Employees at DuPont's facility in Uberaba, Brazil, planted trees to commemorate the site's 10th anniversary. Although they had several things to celebrate, one of the most important was the fact that since production began, the facility has had zero environmental incidents and no recordable safety violations. The primary reason for this achievement was the company's STOP (Safety Training Observation Program) program—a program in which empowered employees were responsible for observing one another, correcting improper procedures, and encouraging safe procedures.[57]

Managers at Whole Foods Markets lead by empowering employees like this young man who offers to help an appreciative customer load her Thanksgiving Day dinner into her shopping cart. At Whole Foods, employees have a high degree of autonomy in making key operating decisions that directly affect their work. All employees work in small teams that are empowered to make decisions about product selection, pricing, ordering, staffing, and in-store promotion. Whole Foods management believes that empowering employees creates a respectful working environment where people are treated fairly, are highly motivated to succeed, and can respond quickly to customer needs.

As we've described in different places throughout the text, managers are increasingly leading by empowering their employees. As we've said before, empowerment involves increasing the decision-making discretion of workers. Millions of individual employees and employee teams are making the key operating decisions that directly affect their work. They're developing budgets, scheduling workloads, controlling inventories, solving quality problems, and engaging in similar activities that until very recently were viewed exclusively as part of the manager's job.[58] For instance, at The Container Store, any employee who gets a customer request has permission to take care of it. Garret Boone, chairman emeritus, says, "Everybody we hire, we hire as a leader. Anybody in our store can take an action that you might think of typically being a manager's action."[59]

One reason more companies are empowering employees is the need for quick decisions by those people who are most knowledgeable about

the issues—often those at lower organizational levels. If organizations want to successfully compete in a dynamic global economy, employees have to be able to make decisions and implement changes quickly. Another reason is that organizational downsizings left many managers with larger spans of control. In order to cope with the increased work demands, managers had to empower their people. Although empowerment is not a universal answer, it can be beneficial when employees have the knowledge, skills, and experience to do their jobs competently.

Leading Across Cultures

"In the United States, leaders are expected to look great, sound great, and be inspiring. In other countries—not so much."[60] In this global economy, how can managers account for cross-cultural differences as they lead?

One general conclusion that surfaces from leadership research is that effective leaders do not use a single style. They adjust their style to the situation. Although not mentioned explicitly, national culture is certainly an important situational variable in determining which leadership style will be most effective. What works in China isn't likely to be effective in France or Canada. For instance, one study of Asian leadership styles revealed that Asian managers preferred leaders who were competent decision makers, effective communicators, and supportive of employees.[61]

National culture affects leadership style because it influences how followers will respond. Leaders can't (and shouldn't) just choose their styles randomly. They're constrained by the cultural conditions their followers have come to expect. Exhibit 17-7 provides some findings from selected examples of cross-cultural leadership studies. Because most leadership theories were developed in the United States, they have an American bias. They emphasize follower responsibilities rather than rights; assume self-gratification rather than commitment to duty or altruistic motivation; assume centrality of work and democratic value orientation; and stress rationality rather than spirituality, religion, or superstition.[62] However, the GLOBE research program, which we first introduced in Chapter 3, is the most extensive and comprehensive cross-cultural study of leadership ever undertaken. The GLOBE study found that leadership has some universal aspects. Specifically, a number of elements of transformational leadership appear to be associated with effective leadership regardless of what country the leader is in.[63] These elements include vision, foresight, providing encouragement, trustworthiness, dynamism, positiveness, and proactiveness. The results led two members of the GLOBE team to conclude that "effective business leaders in any country are expected by their subordinates to provide a

EXHIBIT 17-7
Cross-Cultural Leadership

- Korean leaders are expected to be paternalistic toward employees.
- Arab leaders who show kindness or generosity without being asked to do so are seen by other Arabs as weak.
- Japanese leaders are expected to be humble and speak frequently.
- Scandinavian and Dutch leaders who single out individuals with public praise are likely to embarrass, not energize, those individuals.
- Effective leaders in Malaysia are expected to show compassion while using more of an autocratic than a participative style.
- Effective German leaders are characterized by high performance orientation, low compassion, low self-protection, low team orientation, high autonomy, and high participation.

Sources: Based on J. C. Kennedy, "Leadership in Malaysia: Traditional Values, International Outlook," *Academy of Management Executive,* August 2002, pp. 15–17; F. C. Brodbeck, M. Frese, and M. Javidan, "Leadership Made in Germany: Low on Compassion, High on Performance," *Academy of Management Executive,* February 2002, pp. 16–29; M. F. Peterson and J. G. Hunt, "International Perspectives on International Leadership," *Leadership Quarterly,* Fall 1997, pp. 203–231; R. J. House and R. N. Aditya, "The Social Scientific Study of Leadership: Quo Vadis?" *Journal of Management,* vol. 23, no. 3, 1997, p. 463; and R. J. House, "Leadership in the Twenty-First Century," in A. Howard (ed.), *The Changing Nature of Work* (San Francisco: Jossey-Bass, 1995), p. 442.

powerful and proactive vision to guide the company into the future, strong motivational skills to stimulate all employees to fulfill the vision, and excellent planning skills to assist in implementing the vision."[64] Some people suggest that the universal appeal of these transformational leader characteristics is due to the pressures toward common technologies and management practices, as a result of global competitiveness and multinational influences.

Becoming an Effective Leader

Organizations need effective leaders. Two issues pertinent to becoming an effective leader are leader training and recognizing that sometimes being an effective leader means *not* leading. Let's take a look at these issues.

LEADER TRAINING. Organizations around the globe spend billions of dollars, yen, and euros on leadership training and development.[65] These efforts take many forms—from $50,000 leadership programs offered by universities such as Harvard to sailing experiences at the Outward Bound School. Although much of the money spent on leader training may provide doubtful benefits, our review suggests that managers can do some things to get the maximum effect from such training.[66]

First, let's recognize the obvious. Some people don't have what it takes to be a leader. Period. For instance, evidence indicates that leadership training is more likely to be successful with individuals who are high self-monitors than with low self-monitors. Such individuals have the flexibility to change their behavior as different situations may require. In addition, organizations may find that individuals with higher levels of a trait called motivation to lead are more receptive to leadership development opportunities.[67]

What kinds of things can individuals learn that might be related to being a more effective leader? It may be a bit optimistic to think that "vision-creation" can be taught, but implementation skills can be taught. People can be trained to develop "an understanding about content themes critical to effective visions."[68] We can also teach skills such as trust-building and mentoring. And leaders can be taught situational analysis skills. They can learn how to evaluate situations, how to modify situations to make them fit better with their style, and how to assess which leader behaviors might be most effective in given situations.

SUBSTITUTES FOR LEADERSHIP. Despite the belief that some leadership style will always be effective regardless of the situation, leadership may not always be important! Research indicates that, in some situations, any behaviors a leader exhibits are irrelevant. In other words, certain individual, job, and organizational variables can act as "substitutes for leadership," negating the influence of the leader.[69]

For instance, follower characteristics such as experience, training, professional orientation, or need for independence can neutralize the effect of leadership. These characteristics can replace the employee's need for a leader's support or ability to create structure and reduce task ambiguity. Similarly, jobs that are inherently unambiguous and routine or that are intrinsically satisfying may place fewer demands on leaders. Finally, such organizational characteristics as explicit formalized goals, rigid rules and procedures, or cohesive work groups can substitute for formal leadership.

Let's Get Real:

My Response *to A Manager's Dilemma, page 460*

Adrian Lajtha has an enviable but high-risk challenge. I believe he must do the following to build trust:

- Be respectful of their culture. This will require him to study each ethnicity to ensure he can be effective in his communication.
- Meet with each individual who has been chosen to take part in this leadership program to assess their understanding of the program.
- Develop a multi-tiered program to challenge each person who has been chosen. Each will be on different levels both in communication and skills, and a program must have the flexibility in it to recognize and manage these differences.
- Identify and train a highly skilled team of educators to assist with the program development and implementation. A cross-cultural team will build a stronger development program.
- Communicate, communicate, communicate. Don't leave anything to chance. Working across cultures, this communication may take different forms. Be concise about expectations, timing, and requirements.
- Develop measurement tools that are as nonsubjective as possible.

What Would You Do?

Keith D. Lynn
Agency Field Executive
State Farm Insurance
Tulsa, OK

CHAPTER 17 | PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY
by Learning Outcomes

LEARNING OUTCOME 17.1

Define leader and leadership.

A leader is someone who can influence others and who has managerial authority. Leadership is a process of leading a group and influencing that group to achieve its goals. Managers should be leaders because leading is one of the four management functions.

LEARNING OUTCOME 17.2

Compare and contrast early theories of leadership.

Early attempts to define leader traits were unsuccessful although later attempts found seven traits associated with leadership.

The University of Iowa studies explored three leadership styles. The only conclusion was that group members were more satisfied under a democratic leader than under an autocratic one. The Ohio State studies identified two dimensions of leader behavior—initiating structure and consideration. A leader high in both those dimensions at times achieved high group task performance and high group member satisfaction, but not always. The University of Michigan studies looked at employee-oriented leaders and production-oriented leaders. They concluded that leaders who were employee oriented could get high group productivity and high group member satisfaction. The Managerial Grid looked at leaders' concern for production and concern for people and identified five leader styles. Although it suggested that a leader who was high in concern for production and high in concern for people was the best, there was no substantive evidence for that conclusion.

As the behavioral studies showed, a leader's behavior has a dual nature: a focus on the task and a focus on the people.

LEARNING OUTCOME 17.3

Describe the three major contingency theories of leadership.

Fiedler's model attempted to define the best style to use in particular situations. He measured leader style—relationship oriented or task oriented—using the least-preferred coworker questionnaire. Fiedler also assumed a leader's style was fixed. He measured three contingency dimensions: leader–member relations, task structure, and position power. The model suggests that task-oriented leaders performed best in very favorable and very unfavorable situations, and relationship-oriented leaders performed best in moderately favorable situations.

Hersey and Blanchard's situational leadership theory focused on followers' readiness. They identified four leadership styles: telling (high task–low relationship), selling (high task–high relationship), participating (low task–high relationship), and delegating (low task–low relationship). They also identified four stages of readiness: unable and unwilling (use telling style), unable but willing (use selling style), able but unwilling (use participative style), and able and willing (use delegating style).

The path-goal model developed by Robert House identified four leadership behaviors: directive, supportive, participative, and achievement-oriented. He assumed that a leader can and should be able to use any of these styles. The two situational contingency variables were found in the environment and in the follower. Essentially the path-goal model says that a leader should provide direction and support as needed; that is, structure the path so the followers can achieve goals.

LEARNING OUTCOME 17.4

Describe contemporary views of leadership.

Leader–member exchange theory (LMX) says that leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

A transactional leader exchanges rewards for productivity where a transformational leader stimulates and inspires followers to achieve goals.

A charismatic leader is an enthusiastic and self-confident leader whose personality and actions influence people to behave in certain ways. People can learn to be charismatic. A visionary leader is able to create and articulate a realistic, credible, and attractive vision of the future.

A team leader has two priorities: manage the team's external boundary and facilitate the team process. Four leader roles are involved: liaison with external constituencies, troubleshooter, conflict manager, and coach.

Discuss contemporary issues affecting leadership.

LEARNING OUTCOME 17.5

The five sources of a leader's power are legitimate (authority or position), coercive (punish or control), reward (give positive rewards), expert (special expertise, skills, or knowledge), and referent (desirable resources or traits).

Today's leaders face the issues of managing power, developing trust, empowering employees, leading across cultures, and becoming an effective leader.

To check your understanding of learning outcomes 17.1 – 17.5 go to **mymanagementlab.com** and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. Define leader and leadership and explain why managers should be leaders.
2. What does each of the four behavioral leadership theories say about leadership?
3. Explain Fiedler's contingency model of leadership.
4. How do situational leadership theory and path-goal theory each explain leadership?
5. What is leader–member exchange theory and what does it say about leadership?
6. Differentiate between transactional and transformational leaders and between charismatic and visionary leaders.
7. What are the five sources of a leader's power?
8. What issues do today's leader's face?
9. Do you think that most managers in real life use a contingency approach to increase their leadership effectiveness? Explain.
10. Do the followers make a difference in whether a leader is effective? Discuss.

PREPARING FOR: My Career

ETHICS DILEMMA

Many people would agree that public school education isn't as effective as it needs to be. But who's to blame? At Central Falls High School, a struggling school in Central Falls, Rhode Island, it seemed that everyone was to blame. Every teacher, principal, administrator, and assistant at an underperforming Rhode Island school was fired in February 2010 by the superintendent, the district's head leader.[70] The move was part of a turnaround plan proposed by the superintendent and approved by the state educational commissioner. Advocates of the "fire them all" approach called a turnaround an efficient way to remove bad teachers and clean up a culture that made it difficult for teachers to perform well. Even the U.S. Secretary of Education praised the Central Falls action, saying that the leaders there are "showing courage and doing the right thing for the kids." Critics said that this approach doesn't reflect the complexity of teaching in challenging schools. Union officials said, "This is

immoral, illegal, unjust, irresponsible, disgraceful and disrespectful." What's your opinion? What ethical issues do you see in this situation? (Think about all the possible stakeholders and their concerns.) What lessons do you see for ethical leadership?

(Postscript: In early June 2010, the Central Falls' school board approved an agreement to let teachers at the city's troubled high school keep their jobs. However, under a deal approved by the teachers' union, the school day will be lengthened by half an hour, and teachers will be required to spend an hour tutoring students each week and to eat lunch with students once a week. They will also be subject to a more rigorous evaluation system.)

SKILLS EXERCISE

Developing Your Choosing an Effective Leadership Style Skill

About the Skill

Effective leaders are skillful at helping the groups they lead be successful as the group goes through various stages of development. No leadership style is consistently effective. Situational factors, including follower characteristics, must be taken into consideration in the selection of an effective leadership style. The key situational factors that determine leadership effectiveness include stage of group development, task structure, position power, leader–member relations, the work group, employee characteristics, organizational culture, and national culture.

Steps in Practicing the Skill

You can choose an effective leadership style if you use the following six suggestions.

1. *Determine the stage in which your group or team is operating: forming, storming, norming, or performing.* Because each team stage involves specific and different issues and behaviors, it's important to know in which stage your team is. *Forming* is the first stage of group development during which people join a group and then help define the group's purpose, structure, and leadership. *Storming* is the second stage characterized by intragroup conflict. *Norming* is the third stage characterized by close relationships and cohesiveness. *Performing* is the fourth stage when the group is fully functional.
2. *If your team is in the forming stage, you want to exhibit certain leader behaviors.* These include making certain that all team members are introduced to one another, answering member questions, working to establish a foundation of trust and openness, modeling the behaviors you expect from the team members, and clarifying the team's goals, procedures, and expectations.
3. *If your team is in the storming stage, you want to exhibit certain leader behaviors.* These behaviors include identifying sources of conflict and adopting a mediator role, encouraging a win-win philosophy, restating the team's vision and its core values and goals, encouraging open discussion, encouraging an analysis of team processes in order to identify ways to improve, enhancing team cohesion and commitment, and providing recognition to individual team members as well as the team.
4. *If your team is in the norming stage, you want to exhibit certain leader behaviors.* These behaviors include clarifying the team's goals and expectations, providing performance feedback to individual team members and the team, encouraging the team to articulate a vision for the future, and finding ways to publicly and openly communicate the team's vision.
5. *If your team is in the performing stage, you want to exhibit certain leader behaviors.* These behaviors include providing regular and ongoing performance feedback, fostering innovation and innovative behavior, encouraging the team to capitalize on its strengths, celebrating achievements (large and small), and providing the team whatever support it needs to continue doing its work.
6. *Monitor the group for changes in behavior and adjust your leadership style accordingly.* Because a group is not a static entity, it will go through up periods and down periods. You should adjust your leadership style to the needs of the situation. If the group appears to need more direction from you, provide it. If it appears to be functioning at a high level on its own, provide whatever support is necessary to keep it functioning at that level.

Practicing the Skill

The following suggestions are activities you can do to practice the behaviors in choosing an effective leadership style.

1. Think of a group or team to which you currently belong or of which you have been a part. What type of leadership style did the leader of this group appear to

exhibit? Give some specific examples of the types of leadership behaviors he or she used. Evaluate the leadership style. Was it appropriate for the group? Why or why not? What would you have done differently? Why?

2. Observe a sports team (either college or professional) that you consider extremely successful and one that you would consider not successful. What leadership styles appear to be used in these team situations? Give some specific examples of the types of leadership behaviors you observe. How would you evaluate the leadership style? Was it appropriate for the team? Why or why not? To what degree do you think leadership style influenced the team's outcomes?

WORKING TOGETHER

Team Exercise

Everybody's probably had at least one experience with a *bad boss.* But what *is* a bad boss? And more importantly, what can you do in such a situation?

Break into small groups of three to four other class members. Come up with a bulleted list of characteristics and behaviors you believe a bad boss would have or exhibit. Then, come up with another bulleted list of what you can do if you find yourself in a situation with a bad boss. Be realistic about your suggestions; that is, don't suggest tampering with the person's coffee or slashing the person's tires!

MY TURN TO BE A MANAGER

- Think of the different organizations to which you belong. Note the different styles of leadership used by the leaders in these organizations. Write a paper describing these individual's style of leading (no names, please) and evaluate the styles being used.
- Write down three people that you consider to be effective leaders. Make a bulleted list of the characteristics these individuals exhibit that you think make them effective leaders.
- Think about the times that you have had to lead. Describe what you think your own personal leadership style is. What could you do to improve your leadership style? Come up with an action plan of steps that you can take. Put all this information into a brief paper.
- Managers say that increasingly they must use influence to get things done. Do some research on the art of persuasion. Make a bulleted list of suggestions that you find on how to improve your skills at influencing others.
- Here's a list of leadership skills. Choose two and develop a training exercise that will help develop or improve that skill: building employee communities; building teams; coaching and motivating others; communicating with impact, confidence, and energy; leading by example; leading change; making decisions; providing direction and focus; and valuing diversity.
- Steve's and Mary's recommended readings: Stephen M. R. Covey with Rebecca Merrell, *The Speed of Trust: The One Thing That Changes Everything* (Free Press, 2006); Nancy S. Ahlrichs, *Manager of Choice* (Davies-Black Publishing, 2003); John H. Zenger and Joseph Folkman, *The Extraordinary Leader: Turning Good Managers into Great Leaders* (McGraw-Hill, 2002); Robert H. Rosen, *Leading People* (Viking Penguin Publishing, 1996); Margaret J. Wheatley, *Leadership and the New Science* (Berrett-Koehler Publishers, 1994); Max DePree, *Leadership Jazz* (Dell Publishing, 1992); and Max DePree, *Leadership Is an Art* (Dell Publishing, 1989).
- Select one of the topics in the section on leadership issues in the twenty-first century. Do some additional research on the topic and put your findings in a bulleted list that you are prepared to share in class. Be sure to cite your sources.
- Interview three managers about what they think it takes to be a good leader. Write up your findings in a report and be prepared to present it in class.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: What's My Leadership Style? What Is My LPC Score? How Charismatic Am I? Do I Trust Others? Do Others See Me as Trustworthy? How Good Am I at Building and Leading a Team? Am I an Ethical Leader? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Growing Leaders

CEO George Buckley continues to pursue 3M's leadership excellence based on six leadership attributes: the ability to "chart the course; energize and inspire others; demonstrate ethics, integrity, and compliance; deliver results; raise the bar; and innovate resourcefully."

How important are excellent leaders to organizations? If you were to ask 3M CEO George Buckley, he'd say extremely important.[71] But he'd also say that excellent leaders don't just pop up out of nowhere. A company has to cultivate leaders who have the skills and abilities to help it survive and thrive. And like a successful baseball team with strong performance statistics that has a player development plan in place, 3M has its own farm system. Except its farm system is designed to develop company leaders.

3M's leadership development program is so effective that in 2010 it was number three on the list of *BusinessWeek's* "Top 20 Companies for Leadership" and in 2009, *Chief Executive* magazine and Hay Consulting Group named the company the best at developing future leaders. What is 3M's leadership program all about? About 8 years ago, the company's former CEO (Jim McNerney, who is now Boeing's CEO) and his top team spent 18 months developing a new leadership model for the company. After numerous brainstorming sessions and much heated debate, the group finally agreed on six "leadership attributes" that they believed were essential for the company to become skilled at executing strategy and being accountable. Those six attributes included the ability to "chart the course; energize and inspire others; demonstrate ethics, integrity, and compliance; deliver results; raise the bar; and innovate resourcefully." And now under Buckley's guidance, the company is continuing and reinforcing its pursuit of leadership excellence with these six attributes.

When asked about his views on leadership, Buckley said that he believes leaders differ from managers. "A leader is as much about inspiration as anything else. A manager is more about process." He believes that the key to developing leaders is to focus on those things that can be developed—like strategic thinking. Buckley also believes that leaders should not be promoted up and through the organization too quickly. They need time to experience failures and what it takes to rebuild.

Finally, when asked about his own leadership style. Buckley responded, "The absolutely best way for me to be successful is to have people working for me who are better. Having that kind of emotional self-confidence is vital to leaders. You build respect in those people because you admire what they do. Having built respect, you build trust. However hokey it sounds, it works." And it must be working as the company was named the number one most admired company in the medical and other precision equipment division of *Fortune's* most admired ranking for 2009.

Discussion Questions

1. What do you think about Buckley's statement that leaders and managers differ? Do you agree? Why or why not?
2. What leadership models/theories/issues do you see in this case? List and describe.
3. Take each of the six leadership attributes that the company feels is important. Explain what you think each one involves. Then discuss how those attributes might be developed and measured.
4. What did this case teach you about leadership?

CASE APPLICATION 2

Master and Commander

The U.S. military is widely known for its leaders and its leadership training.[72] And rightly so. It's important in the types of situations faced by military units, teams, and squads that they have strong leaders, leaders who can take command and who can understand the situation in deciding what needs to happen. But how and where does leader style factor in? Is it expected and accepted that by the very nature of those types of situations, military leaders have to be hard-nosed, no-nonsense, and tough?

With a father who was a Navy captain, Holly Graf, the first woman to command a Navy cruiser, had long dreamed of doing just that ever since her high school days in Connecticut. Upon graduation from the U.S. Naval Academy in 1985, colleagues sensed that she was on a fast track to leadership. Her assignments were well-rounded—from tours aboard a destroyer tender, a frigate, and a destroyer, to shore assignments at the Pentagon and as a Navy instructor at Villanova University. However, Graf's "darker side began to emerge when she was assigned to the destroyer USS *Curtis Wilbur* as the executive officer (XO) or second in command." One individual (now retired) says his tour on the *Curtis Wilbur* was "the worst time in my life." Graf's constant berating of the crew led him to complain, but nothing was done. A few years later, Graf made U.S. Naval history by becoming the first female commander of a destroyer, the USS *Winston Churchill.* A Navy chaplain recalls his time aboard the *Churchill* as "the strangest of more than 200 such visits to ships in his career. Morale was the lowest he had ever encountered on any vessel." He tried to talk to Graf about what he was hearing from the crew and junior officers, but she cut him off and said she didn't want to talk to him about it. Then, one eventful night began the unraveling of Graf's career.

On the eve of the Iraq war in 2003, the *Churchill* was steaming out of a Sicilian port when, without warning, all 9,000 tons of the vessel shuddered as it cleared the harbor's breakwater. It wasn't long before the 511-foot-long ship was adrift. Commander Graf grabbed the cowering navigator and pulled him aside screaming, "Did you run my x_____x ship aground?" But amid all the chaos and shouting, the Navy chaplain aboard said that "the sound heard next was more startling. Sailors on the *Churchill's* stern, suspecting that their ship had run aground—meaning Graf's career would be instantly over—broke gleefully into song: "Ding Dong, the witch is dead!" He couldn't believe what he was hearing. Even today, the chaplain can't fathom which was worse, that U.S. sailors were openly berating a captain or that the captain seemed to deserve it. But that incident didn't end her career.

Graf's next command as captain of the guided missile-cruiser USS *Cowpens* would be her last, however. She was relieved of duty in January 2010, after nearly two years, for "cruelty and maltreatment" of her crew. The Navy Inspector General's report stated, "Persons in authority are forbidden to injure their subordinates by tyrannical or capricious conduct, or by abusive language." But Graf did so "by demeaning, humiliating, publicly belittling and verbally assaulting . . . subordinates while in command of *Cowpens* with harsh language and profanity . . . rarely followed by any instruction."

Discussion Questions

1. What do you think of this description of Captain Holly Graf's leader style? Do you think that Captain Graf could even be called a leader? Discuss.
2. What kinds of power do you think Graf used as a ship commander? Explain your choices.
3. Not surprisingly, this whole scenario rocked the Navy to its core because it reflected on the way the Navy chooses, promotes, and then monitors its handpicked leaders. What changes, if any, do you think need to take place in its leadership training and development?
4. Some critics of Graf's treatment have said that institutional sexism played a role in her removal. Do you think that could be possible? Discuss. Would that "excuse" the way she led? Explain.

18 CHAPTER

Let's Get Real:

Meet the Manager

Mike Stutzman

Rockwell Collins
Cedar Rapids, IA

You'll be hearing more from this real manager throughout the chapter.

MY JOB:

I am currently leading several initiatives in organizational and leadership development. I am responsible for aligning the learning and development of our leaders to the objectives of the business. I basically am responsible for helping leaders become better leaders so they can demonstrate desired leadership skills and execute their business plans.

BEST PART OF MY JOB:

The single most competitive advantage a company has in any industry today is the ability of its people to continuously learn and grow. Every company has the same access to information and technology. The true differentiator is how learned and engaged an organization's people are in their jobs. I take a lot of pride in and enjoy having a direct impact on a leader's personal and professional development.

Introduction *to* Controlling

LEARNING OUTCOMES

18.1 **Explain** the nature and importance of control. *page 486*

18.2 **Describe** the three steps in the control process. *page 488*

18.3 **Explain** how organizational performance is measured. *page 491*

18.4 **Describe** tools used to measure organizational performance. *page 493*

18.5 **Discuss** contemporary issues in control. *page 499*

WORST PART OF MY JOB:

Trying to sustain change. Attempting to influence new behavior and shifting culture are challenging and require a long-term commitment. It's difficult at times to inspire people to embrace new directions of "tomorrow" when they keep getting pulled back into the demands and constraints of "today."

BEST MANAGEMENT ADVICE EVER RECEIVED:

A leader once told me that at the end of your career, when all is said and done, you will have, at most, four or five things that you can say truly mattered. Things that were actually worth the stress and anxiety. Beyond that, stay focused on the Big Picture. Life was never intended to be taken as seriously as we make it. Love your family, like your job, all the rest is just "paperwork." Remember to have fun, life is short. This has helped me keep a more healthy and balanced perspective.

A Manager's Dilemma

The 2010 Winter Olympics, held in magnificent Vancouver, British Columbia, was set to be one for the record books but is likely to be remembered for something much more tragic—the death of a young luger on a practice run. What went wrong?

The final report of the International Luge Federation, or FIL, placed the blame for the fatal crash on the young man and on "a complex series of interrelated events."[1] The report said that Nodar Kumaritashvili made a series of mistakes that caused his sled to hit the wall on turn 16 at an exceptional angle, but it's those other aspects, including the track's design, that people questioned.

The luge track was more than 13 percent faster than original estimates, a figure that alarmed the FIL. Although the wall on that turn had already been raised and lengthened to stop athletes from flying off, it wasn't enough to prevent the fatal crash. Jacques Rogge, the International Olympic Committee's president, said, "The IOC had a moral responsibility for the luge track where the death happened, but not a legal one . . . blame should be shared by the FIL and the Vancouver Organizing Committee, which built it." Could better controls have helped prevent this situation?

What Would You Do?

The situation that occurred at the Vancouver Olympics illustrates how important controls are to managers. We'll never know whether a safer design or more thorough track testing could have prevented the tragedy, but it's likely that having a systematic approach to controlling might have made everyone more aware that the situation needed to be addressed. And that's what all managers are looking for. Appropriate controls that can help pinpoint specific performance gaps and areas for improvement.

LEARNING OUTCOME 18.1
Explain the nature and importance of control.

What Is Controlling and Why Is It Important?

A press operator at the Denver Mint noticed a flaw—an extra up leaf or an extra down leaf—on Wisconsin state quarters being pressed at one of his five press machines. He stopped the machine and left for a meal break. When he returned, he saw the machine running and assumed that someone had changed the die in the machine. However, after a routine inspection, the machine operator realized the die had not been changed. The faulty press had likely been running for over an hour and thousands of the flawed coins were now commingled with unblemished quarters. As many as 50,000 of the faulty coins entered circulation, setting off a coin collector buying frenzy.[2] Can you see why controlling is such an important managerial function?

What is **controlling**? It's the process of monitoring, comparing, and correcting work performance. All managers should control even if their units are performing as planned because they can't really know that unless they've evaluated what activities have been done and compared actual performance against the desired standard.[3] Effective controls ensure that activities are completed in ways that lead to the attainment of goals. Whether controls are effective, then, is determined by how well they help employees and managers achieve their goals.[4]

In David Lee Roth's autobiography (yes, *that* David Lee Roth, the former front man for Van Halen), he tells the story of how he had a clause (article 126) in his touring contract asking for a bowl of M&Ms backstage, but no brown ones.[5] Now, you might think that it is just typical demanding rock star behavior, but instead it was a well-planned effort by Roth to see whether the venue management had paid attention. With the technical complexity of his show, he figured if they couldn't get the M&Ms right, he needed to demand a line

check of the entire production to ensure that no technical errors would occur during a performance. Now that's what control should do!

Why is control so important? Planning can be done, an organizational structure created to facilitate efficient achievement of goals, and employees motivated through effective leadership. But there's no assurance that activities are going as planned and that the goals employees and managers are working toward are, in fact, being attained. Control is important, therefore, because it's the only way that managers know whether organizational goals are being met and if not, the reasons why. The value of the control function can be seen in three specific areas: planning, empowering employees, and protecting the workplace.

In Chapter 8, we described goals, which provide specific direction to employees and managers, as the foundation of planning. However, just stating goals or having employees accept goals doesn't guarantee that the necessary actions to accomplish those goals have been taken. As the old saying goes, "The best-laid plans often go awry." The effective manager follows up to ensure that what employees are supposed to do is, in fact, being done and goals are being achieved. As the final step in the management process, controlling provides the critical link back to planning. (See Exhibit 18-1.) If managers didn't control, they'd have no way of knowing whether their goals and plans were being achieved and what future actions to take.

The second reason controlling is important is because of employee empowerment. Many managers are reluctant to empower their employees because they fear something will go wrong for which they would be held responsible. But an effective control system can provide information and feedback on employee performance and minimize the chance of potential problems.

The final reason that managers control is to protect the organization and its assets.[6] Today's environment brings heightened threats from natural disasters, financial scandals, workplace violence, supply chain disruptions, security breaches, and even possible terrorist attacks. Managers must protect organizational assets in the event that any of these things should happen. Comprehensive controls and backup plans will help assure minimal work disruptions.

EXHIBIT 18-1
Planning-Controlling Link

controlling
The process of monitoring, comparing, and correcting work performance

LEARNING OUTCOME
Describe the three steps in the control process.

18.2 The Control Process

When Maggine Fuentes joined Core Systems in Painesville, Ohio, as HR manager, she knew that her top priority was reducing employee injuries. The number of injuries was "through the roof; above the industry average." The high frequency and severity of the company's injury rates not only affected employee morale but also resulted in lost workdays and affected the bottom line.[7] Maggine relied on the control process to turn this situation around.

The **control process** is a three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or to address inadequate standards. (See Exhibit 18-2.) The control process assumes that performance standards already exist, and they do. They're the specific goals created during the planning process.

Step 1. Measuring Actual Performance

To determine what actual performance is, a manager must first get information about it. Thus, the first step in control is measuring.

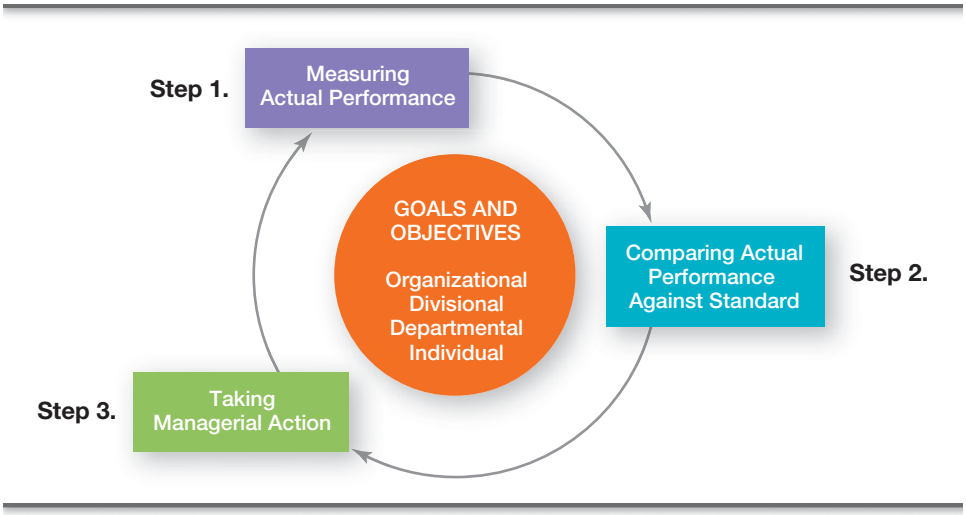
HOW WE MEASURE. Four approaches used by managers to measure and report actual performance are personal observations, statistical reports, oral reports, and written reports. Exhibit 18-3 summarizes the advantages and drawbacks of each approach. Most managers use a combination of these approaches.

WHAT WE MEASURE. What is measured is probably more critical to the control process than how it's measured. Why? Because selecting the wrong criteria can create serious problems. Besides, *what* is measured often determines what employees will do.[8] What control criteria might managers use?

Some control criteria can be used for any management situation. For instance, all managers deal with people, so criteria such as employee satisfaction or turnover and absenteeism rates can be measured. Keeping costs within budget is also a fairly common control measure. Other control criteria should recognize the different activities that managers supervise. For instance, a manager at a pizza delivery location might use measures such as number of pizzas delivered per day, average delivery time, or number of coupons redeemed. A manager in a governmental agency might use applications typed per day, client requests completed per hour, or average time to process paperwork.

Most work activities can be expressed in quantifiable terms. However, managers should use subjective measures when they can't. Although such measures may have limitations, they're better than having no standards at all and doing no controlling.

EXHIBIT 18-2
The Control Process



	Benefits	Drawbacks
Personal Observations	• Get firsthand knowledge • Information isn't filtered • Intensive coverage of work activities	• Subject to personal biases • Time-consuming • Obtrusive
Statistical Reports	• Easy to visualize • Effective for showing relationships	• Provide limited information • Ignore subjective factors
Oral Reports	• Fast way to get information • Allow for verbal and nonverbal feedback	• Information is filtered • Information can't be documented
Written Reports	• Comprehensive • Formal • Easy to file and retrieve	• Take more time to prepare

EXHIBIT 18-3
Sources of Information for Measuring Performance

Step 2. Comparing Actual Performance Against the Standard

The comparing step determines the variation between actual performance and the standard. Although some variation in performance can be expected in all activities, it's critical to determine an acceptable **range of variation** (see Exhibit 18-4). Deviations outside this range need attention. Let's work through an example.

Chris Tanner is a sales manager for Green Earth Gardening Supply, a distributor of specialty plants and seeds in the Pacific Northwest. Chris prepares a report during the first week of each month that describes sales for the previous month, classified by product line.

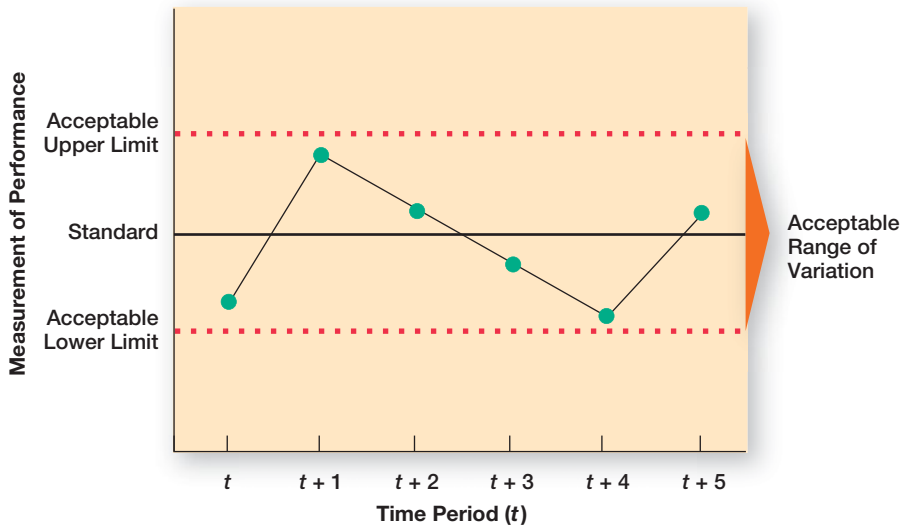


EXHIBIT 18-4
Acceptable Range of Variation

control process
A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards

range of variation
The acceptable parameters of variance between actual performance and the standard

EXHIBIT 18-5
Green Earth Gardening Supply—*June Sales*

Product	Standard	Actual	Over (Under)
Vegetable plants	1,075	913	(162)
Perennial flowers	630	634	4
Annual flowers	800	912	112
Herbs	160	140	(20)
Flowering bulbs	170	286	116
Flowering bushes	225	220	(5)
Heirloom seeds	540	672	132
Total	3,600	3,777	177

Exhibit 18-5 displays both the sales goals (standard) and actual sales figures for the month of June. After looking at the numbers, should Chris be concerned? Sales were a bit higher than originally targeted, but does that mean there were no significant deviations? That depends on what Chris thinks is *significant*; that is, outside the acceptable range of variation. Even though overall performance was generally quite favorable, some product lines need closer scrutiny. For instance, if sales of heirloom seeds, flowering bulbs, and annual flowers continue to be over what was expected, Chris might need to order more product from nurseries to meet customer demand. Because sales of vegetable plants were 15 percent below goal, Chris may need to run a special on them. As this example shows, both overvariance and undervariance may require managerial attention, which is the third step in the control process.

Step 3. Taking Managerial Action

Managers can choose among three possible courses of action: do nothing, correct the actual performance, or revise the standards. Because "do nothing" is self-explanatory, let's look at the other two.

CORRECT ACTUAL PERFORMANCE. Sports coaches understand the importance of correcting actual performance. During a game, they'll often correct a player's actions. But if the problem is recurring or encompasses more than one player, they'll devote time during practice before the next game to correcting the actions.[9] That's what managers need to do as well.

Depending on what the problem is, a manager could take different corrective actions. For instance, if unsatisfactory work is the reason for performance variations, the manager could correct it by things such as training programs, disciplinary action, changes in compensation practices, and so forth. One decision that a manager must make is whether to take **immediate corrective action**, which corrects problems at once to get performance back on track, or to use **basic corrective action**, which looks at how and why performance deviated before correcting the source of deviation. It's not unusual for managers to rationalize that they don't have time to find the source of a problem (basic corrective action) and continue to perpetually "put out fires" with immediate corrective action. Effective managers analyze deviations and if the benefits justify it, take the time to pinpoint and correct the causes of variance.

REVISE THE STANDARD. It's possible that the variance was a result of an unrealistic standard—too low or too high a goal. In that situation, the standard needs the corrective action, not the performance. If performance consistently exceeds the goal, then a manager should look at whether the goal is too easy and needs to be raised. On the other hand, managers must be cautious about revising a standard downward. It's natural to blame the goal when an employee or a team falls short. For instance, students who get a low score on a test often attack the grade cutoff standards as too high. Rather than accept the fact that

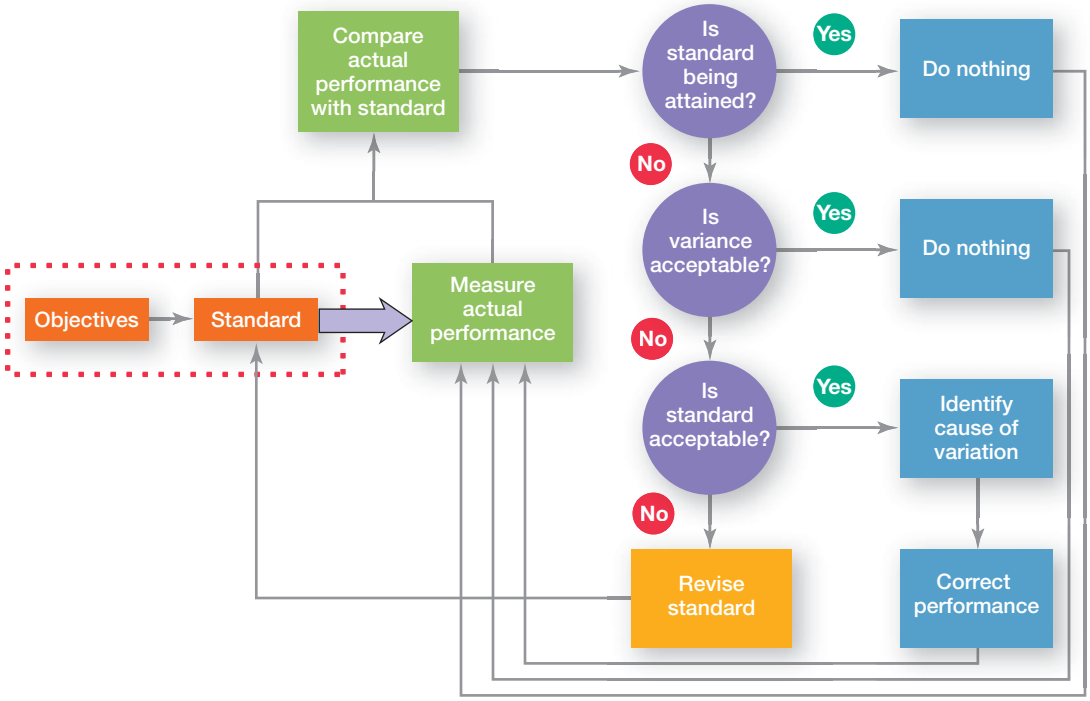


EXHIBIT 18-6
Managerial Decisions in the Control Process

their performance was inadequate, they will argue that the standards are unreasonable. Likewise, salespeople who don't meet their monthly quota often want to blame what they think is an unrealistic quota. The point is that when performance isn't up to par, don't immediately blame the goal or standard. If you believe the standard is realistic, fair, and achievable, tell employees that you expect future work to improve, and then take the necessary corrective action to help make that happen.

Managerial Decisions in Controlling

Exhibit 18-6 summarizes the decisions a manager makes in controlling. The standards are goals that were developed during the planning process. These goals provide the basis for the control process, which involves measuring actual performance and comparing it against the standard. Depending on the results, a manager's decision is to do nothing, correct the performance, or revise the standard.

Controlling for Organizational Performance

18.3 LEARNING OUTCOME
Explain how organizational performance is measured.

Cost efficiency. The length of time customers are kept on hold. Customer satisfaction with service provided. These are just a few of the important performance indicators that executives in the intensely competitive call-center service industry measure. To make good decisions, managers in this industry want and need this type of information so they can manage

immediate corrective action
Corrective action that corrects problems at once to get performance back on track

basic corrective action
Corrective action that looks at how and why performance deviated before correcting the source of deviation

organizational performance. Managers in all types of businesses are responsible for managing organizational performance.

What Is Organizational Performance?

When you hear the word *performance,* what do you think of? A summer evening concert by a local community orchestra? An Olympic athlete striving for the finish line in a close race? A Southwest Airlines ramp agent in Ft. Myers, Florida, loading passengers as efficiently as possible in order to meet the company's 20-minute gate turnaround goal? **Performance** is all of these things. It's the end result of an activity. And whether that activity is hours of intense practice before a concert or race or whether it's carrying out job responsibilities as efficiently and effectively as possible, performance is what results from that activity.

Managers are concerned with **organizational performance**—the accumulated results of all the organization's work activities. It's a multifaceted concept, but managers need to understand the factors that contribute to organizational performance. After all, it's unlikely that they want (or intend) to manage their way to mediocre performance. They *want* their organizations, work units, or work groups to achieve high levels of performance.

Measures of Organizational Performance

Theo Epstein, executive vice president and general manager of the Boston Red Sox, uses some unusual statistics to evaluate his players' performance instead of the old standards like batting average, home runs, and runs batted in. These "new" performance measures include on-base percentage, pitches per plate appearance, at-bats per home run, and on-base plus slugging percentage.[10] Also, by using these statistics to predict future performance, Epstein has identified some potential star players and signed them for a fraction of the cost of a big-name player. His management team is defining new statistics to measure the impact of a player's defensive skills. As a manager, Epstein has identified the performance measures that are most important to his decisions.

Like Epstein, all managers must know which measures will give them the information they need about organizational performance. Commonly used ones include organizational productivity, organizational effectiveness, and industry rankings.

ORGANIZATIONAL PRODUCTIVITY. **Productivity** is the amount of goods or services produced divided by the inputs needed to generate that output. Organizations and individual work units want to be productive. They want to produce the most goods and services using the least amount of inputs. Output is measured by the sales revenue an organization receives when goods are sold (selling price × number sold). Input is measured by the costs of acquiring and transforming resources into outputs.

It's management's job to increase this ratio. Of course, the easiest way to do this is to raise prices of the outputs. But in today's competitive environment, that may not be an option. The only other option, then, is to decrease the inputs side. How? By being more efficient in performing work and thus decreasing the organization's expenses.

ORGANIZATIONAL EFFECTIVENESS. **Organizational effectiveness** is a measure of how appropriate organizational goals are and how well those goals are being met. That's the bottom line for managers and it's what guides managerial decisions in designing strategies and work activities and in coordinating the work of employees.

INDUSTRY AND COMPANY RANKINGS. Rankings are a popular way for managers to measure their organization's performance. And there's not a shortage of these rankings as Exhibit 18-7 shows. Rankings are determined by specific performance measures, which are different for each list. For instance, *Fortune's* Best Companies to Work For are chosen by answers given by thousands of randomly selected employees on a questionnaire called "The Great Place to Work® Trust Index®" and on materials filled out by thousands of

EXHIBIT 18-7

Popular Industry and Company Rankings

***Fortune* (www.fortune.com)**

Fortune 500

25 Top MBA Employers

Most Admired Companies

100 Best Companies to Work For

101 Dumbest Moments in Business

Global 500

Top Companies for Leaders

100 Fastest-Growing Companies

***BusinessWeek* (www.businessweek.com)**

World's Most Innovative Companies
BusinessWeek 50

Top MBA Programs

Customer Service Champs

Forbes (www.forbes.com)

Forbes 500

200 Best Small Companies

400 Best Big Companies

Largest Private Companies

World's 2,000 Largest Companies

Global High Performers

***IndustryWeek* (www.industryweek.com)**

IndustryWeek 1000

IndustryWeek U.S. 500

50 Best Manufacturing Companies

IndustryWeek Best Plants

Customer Satisfaction Indexes

American Customer Satisfaction Index—University of Michigan Business School

Customer Satisfaction Measurement Association

company managers including a corporate culture audit created by the Great Place to Work Institute. These rankings give managers (and others) an indicator of how well their company performs in comparison to others.

Tools for Measuring Organizational Performance

18.4 LEARNING OUTCOME
Describe tools used to measure organizational performance.

When someone typed the word "bailout" into a Domino's promo code window and found it was good for a free medium pizza, the news spread like wildfire across the Web. Domino's ended up having to give away thousands of free pizzas. A simple mistyped Web address by a Google employee caused all search results worldwide during a 55-minute period to warn, "This site may be harmful to your computer," even though it wasn't. Operating under tremendous financial pressures as consumers curtailed spending, retailers across the United States struggled to cut costs.[11] What kinds of tools could managers at these companies have used for monitoring and measuring performance?

All managers need appropriate tools for monitoring and measuring organizational performance. Before describing some specific types of control tools, let's look at the concept of feedforward, concurrent, and feedback control.

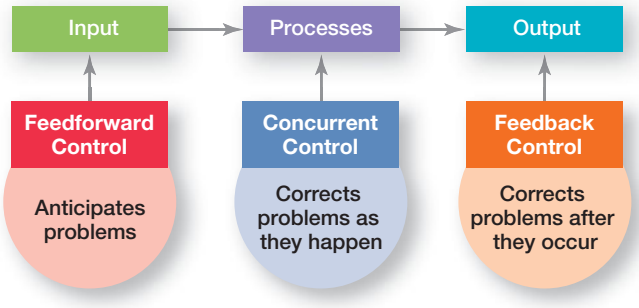
performance
The end result of an activity

organizational performance
The accumulated results of all the organization's work activities

productivity
The amount of goods or services produced divided by the inputs needed to generate that output

organizational effectiveness
A measure of how appropriate organizational goals are and how well those goals are being met

EXHIBIT 18-8
Types of Control



Feedforward/Concurrent/Feedback Controls

Managers can implement controls *before* an activity begins, *during* the time the activity is going on, and *after* the activity has been completed. The first type is called feedforward control; the second, concurrent control; and the last, feedback control (see Exhibit 18-8).

FEEDFORWARD CONTROL. The most desirable type of control—**feedforward control**—prevents problems because it takes place before the actual activity.[12] For instance, when McDonald's opened its first restaurant in Moscow, it sent company quality control experts to help Russian farmers learn techniques for growing high-quality potatoes and to help bakers learn processes for baking high-quality breads. Why? McDonald's demands consistent product quality no matter the geographical location. They want a cheeseburger in Moscow to taste like one in Omaha. Still another example of feedforward control is the scheduled preventive maintenance programs on aircraft done by the major airlines. These programs are designed to detect and hopefully to prevent structural damage that might lead to an accident.

The key to feedforward controls is taking managerial action *before* a problem occurs. That way, problems can be prevented rather than having to correct them after any damage (poor-quality products, lost customers, lost revenue, etc.) has already been done. However, these controls require timely and accurate information that isn't always easy to get. Thus, managers frequently end up using the other two types of control.

CONCURRENT CONTROL. **Concurrent control**, as its name implies, takes place while a work activity is in progress. For instance, Nicholas Fox is director of business product management at Google. He and his team keep a watchful eye on one of Google's most profitable businesses—online ads. They watch "the number of searches and clicks, the rate at which users click on ads, the revenue this generates—everything is tracked hour by hour, compared with the data from a week earlier and charted."[13] If they see something that's not working particularly well, they fine-tune it.

The best-known form of concurrent control is direct supervision. Another term for it is **management by walking around**, which is when a manager is in the work area interacting directly with employees. For example, Nvidia's CEO Jen-Hsun Huang tore down his cubicle and replaced it with a conference table so he's available to employees at all times to discuss what's going on.[14] Even GE's CEO Jeff Immelt spends 60 percent of his workweek on the road talking to employees and visiting the company's numerous locations.[15] All managers can benefit from using concurrent control because they can correct problems before they become too costly.

FEEDBACK CONTROL. The most popular type of control relies on feedback. In **feedback control**, the control takes place *after* the activity is done. For instance, the Denver Mint discovered the flawed Wisconsin quarters using feedback control. The damage had already occurred even though the organization corrected the problem once it

Dr. Giovanni Colella interacts directly with employees at Castlight Health, a Web-based company he cofounded and heads as chief executive, to give consumers the knowledge they need to make informed health care buying decisions. By investing time in communicating with employees face-to-face in their work areas, Dr. Colella practices management by walking around, a form of concurrent control. This technique helps managers identify potential problems as they listen to what employees say, answer their questions, and ask them for their ideas that will help improve the company.

was discovered. And that's the major problem with this type of control. By the time a manager has the information, the problems have already occurred, leading to waste or damage. However, in many work areas, financial being one example, feedback is the only viable type of control.

Feedback controls do have two advantages.[16] First, feedback gives managers meaningful information on how effective their planning efforts were. Feedback that shows little variance between standard and actual performance indicates that the planning was generally on target. If the deviation is significant, a manager can use that information to formulate new plans. Second, feedback can enhance motivation. People want to know how well they're doing and feedback provides that information. Now, let's look at some specific control tools that managers can use.

Financial Controls

Every business wants to earn a profit. To achieve this goal, managers need financial controls. For instance, they might analyze quarterly income statements for excessive expenses. They might also calculate financial ratios to ensure that sufficient cash is available to pay ongoing expenses, that debt levels haven't become too high, or that assets are being used productively.

Managers might use traditional financial measures such as ratio analysis and budget analysis. Exhibit 18-9 summarizes some of the most popular financial ratios. Liquidity ratios measure an organization's ability to meet its current debt obligations. Leverage ratios examine the organization's use of debt to finance its assets and whether it's able to meet the interest payments on the debt. Activity ratios assess how efficiently a company is using its assets. Finally, profitability ratios measure how efficiently and effectively the company is using its assets to generate profits. These ratios are calculated using selected information from the organization's two primary financial statements (the balance sheet and the income statement), which are then expressed as a percentage or ratio. Because you've probably studied these ratios in other accounting or finance courses, or will in the near future, we

feedforward control
Control that takes place before a work activity is done

concurrent control
Control that takes place while a work activity is in progress

management by walking around
A term used to describe when a manager is out in the work area interacting directly with employees

feedback control
Control that takes place after a work activity is done

EXHIBIT 18-9
Popular Financial Ratios

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how many times the organization is able to meet its interest expenses
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that are being generated
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

aren't going to elaborate on how they're calculated. We mention them here to remind you that managers use such ratios as internal control tools.

Budgets are planning and controlling tools. (See the Planning Tools and Techniques module for more information on budgeting.) When a budget is formulated, it's a planning tool because it indicates which work activities are important and what and how much resources should be allocated to those activities. But budgets are also used for controlling because they provide managers with quantitative standards against which to measure and compare resource consumption. If deviations are significant enough to require action, the manager examines what has happened and tries to uncover why. With this information, necessary action can be taken. For example, if you use a personal budget for monitoring and controlling your monthly expenses, you might find that one month your miscellaneous expenses were higher than you had budgeted for. At that point, you might cut back spending in another area or work extra hours to get more income.

Balanced Scorecard

The **balanced scorecard** approach is a way to evaluate organizational performance from more than just the financial perspective.[17] A balanced scorecard typically looks at four areas that contribute to a company's performance: financial, customer, internal processes, and people/innovation/growth assets. According to this approach, managers should develop goals in each of the four areas and then measure whether the goals are being met.

Although a balanced scorecard makes sense, managers will tend to focus on areas that drive their organization's success and use scorecards that reflect those strategies.[18] For example, if strategies are customer-centered, then the customer area is likely to get more attention than the other three areas. Yet, you can't focus on measuring only one performance area because others are affected as well. For instance, at IBM Global Services in Houston, managers developed a scorecard around an overriding strategy of customer satisfaction. However, the other areas (financial, internal processes, and people/innovation/growth) support that central strategy. The division manager described it as follows, "The internal

processes part of our business is directly related to responding to our customers in a timely manner, and the learning and innovation aspect is critical for us since what we're selling our customers above all is our expertise. Of course, how successful we are with those things will affect our financial component."[19]

Information Controls

Cyber-attackers from China targeted Google and 34 other companies in an attempt to steal information. The largest-ever criminal stealing of credit-card data—account information belonging to millions of people—happened to Heartland Payment Systems, a payments processor. An ex-worker at Goldman Sachs stole "black box" computer programs that Goldman uses to make lucrative, rapid-fire trades in the financial markets.[20] Talk about the need for information controls! Managers deal with information controls in two ways: (1) as a tool to help them control other organizational activities, and (2) as an organizational area they need to control.

HOW IS INFORMATION USED IN CONTROLLING? Managers need the right information at the right time and in the right amount to monitor and measure organizational activities and performance.

In measuring actual performance, managers need information about what is happening within their area of responsibility and about the standards in order to be able to compare actual performance with the standard. They also rely on information to help them determine if deviations are acceptable. Finally, they rely on information to help them develop appropriate courses of action. Information *is* important! Most of the information tools that managers use come from the organization's management information system.

A **management information system (MIS)** is a system used to provide managers with needed information on a regular basis. In theory, this system can be manual or computer-based, although most organizations have moved to computer-supported applications. The term *system* in MIS implies order, arrangement, and purpose. Further, an MIS focuses specifically on providing managers with *information* (processed and analyzed data), not merely *data* (raw, unanalyzed facts). A library provides a good analogy. Although it can contain millions of volumes, a library doesn't do you any good if you can't find what you want quickly. That's why librarians spend a great deal of time cataloging a library's collections and ensuring that materials are returned to their proper locations. Organizations today are like well-stocked libraries. The issue is not a lack of data; instead, the issue is whether an organization has the ability to process that data so that the right information is available to the right person when he or she needs it. An MIS collects data and turns them into relevant information for managers to use.

CONTROLLING INFORMATION. It seems that every week, there's another news story about information security breaches. A survey shows that 85 percent of privacy and security professionals acknowledge a reportable data breach occurred within their organizations within the last year alone.[21] Because information is critically important to everything an organization does, managers must have comprehensive and secure controls in place to protect that information. Such controls can range from data encryption to system firewalls to data backups, and other techniques as well.[22] Problems can lurk in places that an organization might not even have considered, like blogs, search engines, and Twitter accounts. Sensitive, defamatory, confidential, or embarrassing organizational information has found its way into search engine results. For instance, detailed monthly expenses and employee salaries on the National Speleological Society's Web site turned up in a

balanced scorecard
A performance measurement tool that looks at more than just the financial perspective

management information system (MIS)
A system used to provide management with needed information on a regular basis

Walt Disney Company is one of the world's largest entertainment and media companies and has had a long record of success.[28] When Bob Iger was named CEO in 2005, analysts believed that the Disney brand had become outdated. The perception was too many Disney products in the marketplace lacking the quality people expected. Iger decided to address that perception with what he called the Disney Difference. What is the Disney Difference? It's "high-quality creative content, backed up by a clear strategy for maximizing that content's value across platforms and markets." Now the company's obsessive focus on product quality led it to a number one ranking in *Fortune's* Most Admired list for product quality.

Google search.[23] Equipment such as laptop computers, smartphones, and even RFID (radio-frequency identification) tags are vulnerable to viruses and hacking. Needless to say, information controls should be monitored regularly to ensure that all possible precautions are in place to protect important information.

Benchmarking of Best Practices

The Cleveland Clinic is world renowned for delivering high-quality health care, with a top-ranked heart program that attracts patients from around the world. But what you may not realize is that it's also a model of cost-effective health care.[24] It could serve as a model for other health care organizations looking to be more effective and efficient.

Managers in such diverse industries as health care, education, and financial services are discovering what manufacturers have long recognized—the benefits of **benchmarking**, which is the search for the best practices among competitors or noncompetitors that lead to their superior performance. Benchmarking should identify various **benchmarks**, which are the standards of excellence against which to measure and compare. For instance, the American Medical Association developed more than 100 standard measures of performance to improve medical care. Carlos Ghosn, CEO of Nissan, benchmarked Walmart operations in purchasing, transportation, and logistics.[25] At its most basic, benchmarking means learning from others. As a tool for monitoring and measuring organizational performance, benchmarking can be used to identify specific performance gaps and potential areas of improvement. But best practices aren't just found externally.

Sometimes those best practices can be found inside the organization and just need to be shared. One fertile area for finding good performance improvement ideas is employee suggestion boxes, which we discussed in Chapter 15. Research shows that best practices frequently already exist within an organization but usually go unidentified and unnoticed.[26] In today's environment, organizations seeking high performance levels can't afford to ignore such potentially valuable information. For example, Ameren Corporation's power plant managers used internal benchmarking to help identify performance gaps and opportunities.[27] Exhibit 18-10 provides some suggestions for internal benchmarking.

EXHIBIT 18-10
Suggestions for Internal Benchmarking

1. *Connect best practices to strategies and goals.* The organization's strategies and goals should dictate what types of best practices might be most valuable to others in the organization.
2. *Identify best practices throughout the organization.* Organizations must have a way to find out what practices have been successful in different work areas and units.
3. *Develop best practices reward and recognition systems.* Individuals must be given an incentive to share their knowledge. The reward system should be built into the organization's culture.
4. *Communicate best practices throughout the organization.* Once best practices have been identified, that information needs to be shared with others in the organization.
5. *Create a best practices knowledge-sharing system.* There needs to be a formal mechanism for organizational members to continue sharing their ideas and best practices.
6. *Nurture best practices on an ongoing basis.* Create an organizational culture that reinforces a "we can learn from everyone" attitude and emphasizes sharing information.

Source: Based on T. Leahy, "Extracting Diamonds in the Rough," *Business Finance*, August 2000, pp. 33–37.

Contemporary Issues in Control

18.5 LEARNING OUTCOME
Discuss contemporary issues in control.

The employees of Integrated Information Systems Inc. didn't think twice about exchanging digital music over a dedicated office server they had set up. Like office betting on college and pro sports, it was technically illegal, but harmless, or so they thought. But after the company had to pay a $1 million settlement to the Recording Industry Association of America, managers wished they had controlled the situation better.[29] Control is an important managerial function. We're going to look at four control issues that managers face today: cross-cultural differences, workplace concerns, customer interactions, and corporate governance.

Adjusting Controls for Cross-Cultural Differences

The concepts of control that we've been discussing are appropriate for an organization whose work units are not geographically separated or culturally distinct. But control techniques can be quite different for different countries. The differences are primarily in the measurement and corrective action steps of the control process. In a global corporation, managers of foreign operations tend to be less controlled by the home office, if for no other reason than distance keeps managers from being able to observe work directly. Because distance creates a tendency to formalize controls, such organizations often rely on extensive formal reports for control, most of which are communicated electronically.

Technology's impact on control is also seen when comparing technologically advanced nations with less technologically advanced countries. Managers in countries where technology is more advanced often use indirect control devices such as computer-generated reports and analyses in addition to standardized rules and direct supervision to ensure that work activities are going as planned. In less technologically advanced countries, however, managers tend to use more direct supervision and highly centralized decision making for control.

Managers in foreign countries also need to be aware of constraints on corrective actions they can take. Some countries' laws prohibit closing facilities, laying off employees, taking money out of the country, or bringing in a new management team from outside the country.

Finally, another challenge for global managers in collecting data for measurement and comparison is comparability. For instance, a company that manufactures apparel in Cambodia might produce the same products at a facility in Scotland. However, the Cambodian facility might be more labor intensive than its Scottish counterpart to take advantage of lower labor costs in Cambodia. This difference makes it hard to compare, for instance, labor costs per unit.

Workplace Concerns

The month-long World Cup games are a big drain on global productivity. A survey by the Chartered Management Institute says that in the United Kingdom, productivity losses could total just under 1 billion pounds ($1.45 billion). In the United States, March Madness also leads to a drop in productivity—estimated at $1.8 billion during the first week of the tournament—as employees fill out their brackets and survey the message boards and blogs.[30]

Today's workplaces present considerable control challenges for managers. From monitoring employees' computer usage at work to protecting the workplace against disgruntled employees intent on doing harm, managers need controls to ensure that work can be done efficiently and effectively as planned.

benchmarking
The search for the best practices among competitors or noncompetitors that lead to their superior performance

benchmark
The standard of excellence against which to measure and compare

by the numbers[37]

68 percent of workers say they participated in a Super Bowl office pool, and 56 percent participate in a March Madness basketball office pool.

1.7 hours a day is what employees spend doing nothing, costing businesses $4.4 billion a day.

29 percent of fraud cases are in the amount of $100,000 to $499,999.

42 percent of employees who have stolen items from work say it's because they need the items.

88 percent of all data breaches involve insider negligence.

7 percent of revenues is what insider fraud is equal to.

58 percent of employees say they have a boss who plays online games at work.

2 years is the average length of time from fraud start to detection.

WORKPLACE PRIVACY. If you work, do you think you have a right to privacy at your job? What can your employer find out about you and your work? You might be surprised at the answers! Employers can (and do), among other things, read your e-mail (even those marked "personal or confidential"), tap your telephone, monitor your work by computer, store and review computer files, monitor you in an employee bathroom or dressing room, and track your whereabouts in a company vehicle. And these actions aren't that uncommon. In fact, some 26 percent of companies have fired an employee for e-mail misuse; 26 percent have fired workers for misusing the Internet; 6 percent have fired employees for inappropriate cell phone use; 4 percent have fired someone for instant messaging misuse; and 3 percent have fired someone for inappropriate text messaging.[31]

Why do managers feel they need to monitor what employees are doing? A big reason is that employees are hired to work, not to surf the Web checking stock prices, watching online videos, playing fantasy baseball, or shopping for presents for family or friends. Recreational on-the-job Web surfing is thought to cost billions of dollars in lost work productivity annually. In fact, a survey of U.S. employers said that 87 percent of employees look at non-work-related Web sites while at work and more than half engage in personal Web site surfing every day.[32] Watching online video has become an increasingly serious problem not only because of the time being wasted by employees but because it clogs already-strained corporate computer networks.[33] All this nonwork adds up to significant costs to businesses.

Another reason that managers monitor employee e-mail and computer usage is that they don't want to risk being sued for creating a hostile workplace environment because of offensive messages or an inappropriate image displayed on a coworker's computer screen. Concerns about racial or sexual harassment are one reason companies might want to monitor or keep backup copies of all e-mail. Electronic records can help establish what actually happened so managers can react quickly.[34]

Finally, managers want to ensure that company secrets aren't being leaked.[35] In addition to typical e-mail and computer usage, companies are monitoring instant messaging and banning camera phones in the office. Managers need to be certain that employees are not, even inadvertently, passing information on to others who could use that information to harm the company.

Because of the potentially serious costs and given the fact that many jobs now entail computers, many companies have workplace monitoring policies. Such policies should control employee behavior in a nondemeaning way and employees should be informed about those policies.[36]

EMPLOYEE THEFT. At the Saks flagship store in Manhattan, a 23-year-old sales clerk was caught ringing up $130,000 in false merchandise returns and putting the money onto a gift card.[38] And such practices have occurred at other retailers as well.

Would you be surprised to find that up to 85 percent of all organizational theft and fraud is committed by employees, not outsiders?[39] And it's a costly problem—estimated to be around $4,500 per worker per year.[40]

Employee theft is defined as any unauthorized taking of company property by employees for their personal use.[41] It can range from embezzlement to fraudulent filing of expense reports to removing equipment, parts, software, or office supplies from company premises. Although retail businesses have long faced serious potential losses from employee theft, loose financial controls at start-ups and small companies and the ready availability of information technology have made employee stealing an escalating problem in all kinds and sizes of organizations. Managers need to educate themselves about this control issue and be prepared to deal with it.[42]

Why do employees steal? The answer depends on whom you ask.[43] Experts in various fields—industrial security, criminology, clinical psychology—have different perspectives. The industrial security people propose that people steal because the opportunity presents itself through lax controls and favorable circumstances. Criminologists say that it's because people have financial-based pressures (such as personal financial problems) or vice-based

pressures (such as gambling debts). And the clinical psychologists suggest that people steal because they can rationalize whatever they're doing as being correct and appropriate behavior ("everyone does it," "they had it coming," "this company makes enough money and they'll never miss anything this small," "I deserve this for all that I put up with," and so forth).[44] Although each approach provides compelling insights into employee theft and has been instrumental in attempts to deter it, unfortunately, employees continue to steal. What can managers do?

The concept of feedforward, concurrent, and feedback control is useful for identifying measures to deter or reduce employee theft.[45] Exhibit 18-11 summarizes several possible managerial actions.

Workplace Violence

In August 2010, a driver about to lose his job at Hartford Distributors in Hartford, Connecticut, opened fire killing eight other employees and himself. In July 2010, a former employee at a solar products manufacturer in Albuquerque, New Mexico, walked into the business and opened fire killing two people and wounding four others. On November 6, 2009, in Orlando, Florida, an engineer who had been dismissed from his job for poor performance returned and shot and killed one person while wounding five others. This incident happened only one day after an Army psychiatrist went on a shooting rampage at Fort Hood Army post killing 13 and wounding 27. On June 25, 2008, in Henderson, Kentucky, an employee at a plastics plant returned hours after arguing with his supervisor over his not wearing safety goggles and for using his cell phone while working on the assembly line. He shot and killed the supervisor, four other coworkers, and himself. On January 30, 2006, a former employee who was once removed from a Santa Barbara, California, postal facility because of "strange behavior"

Feedforward	Concurrent	Feedback
Careful prehiring screening.	Treat employees with respect and dignity.	Make sure employees know when theft or fraud has occurred—not naming names but letting people know this is not acceptable.
Establish specific policies defining theft and fraud and discipline procedures.	Openly communicate the costs of stealing.	Use the services of professional investigators.
Involve employees in writing policies.	Let employees know on a regular basis about their successes in preventing theft and fraud.	Redesign control measures.
Educate and train employees about the policies.	Use video surveillance equipment if conditions warrant.	Evaluate your organization's culture and the relationships of managers and employees.
Have a professional review of your internal security controls.	Install "lock-out" options on computers, telephones, and e-mail.	
	Use corporate hotlines for reporting incidences.	
	Set a good example.	

EXHIBIT 18-11

Controlling Employee Theft

Sources: Based on A. H. Bell and D. M. Smith, "Protecting the Company Against Theft and Fraud," *Workforce Management Online,* December 3, 2000; J. D. Hansen, "To Catch a Thief," *Journal of Accountancy,* March 2000, pp. 43–46; and J. Greenberg, "The Cognitive Geometry of Employee Theft," in S. B. Bacharach, A. O'Leary-Kelly, J. M. Collins, and R. W. Griffin (eds.), *Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior* (Stamford, CT: JAI Press, 1998), pp. 147–193.

employee theft
Any unauthorized taking of company property by employees for their personal use

came back and shot five workers to death, critically wounded another, and killed herself. On January 26, 2005, an autoworker at a Jeep plant in Toledo, Ohio, who had met the day before with plant managers about a problem with his work, came in and killed a supervisor and wounded two other employees before killing himself. During April 2003 in Indianapolis, a manager of a Boston Market restaurant was killed by a fellow employee after the restaurant closed because the manager had refused the employee's sexual advances. In July 2003, an employee at an aircraft assembly plant in Meridian, Mississippi, walked out of a mandatory class on ethics and respect in the workplace, returned with firearms and ammunition, shot 14 of his coworkers, killing five and himself.[46] Is workplace violence really an issue for managers? Yes. Despite these examples, thankfully the number of workplace shootings has decreased.[47] However, the U.S. National Institute of Occupational Safety and Health still says that each year, some 2 million American workers are victims of some form of workplace violence. In an average week, one employee is killed and at least 25 are seriously injured in violent assaults by current or former coworkers. And according to a Department of Labor survey, 58 percent of firms reported that managers received verbal threats from workers.[48] Anger, rage, and violence in the workplace are intimidating to coworkers and adversely affect their productivity. The annual cost to U.S. businesses is estimated to be between $20 and $35 billion.[49] And office rage isn't a uniquely American problem. A survey of aggressive behavior in Britain's workplaces found that 18 percent of managers say they have personally experienced harassment or verbal bullying and 9 percent claim to have experienced physical attacks.[50]

What factors are believed to be contributing to workplace violence? Undoubtedly, employee stress caused by an uncertain economic environment, job uncertainties, declining value of retirement accounts, long hours, information overload, other daily interruptions, unrealistic deadlines, and uncaring managers play a role. Even office layout designs with small cubicles where employees work amidst the noise and commotion from those around them have been cited as contributing to the problem.[51] Other experts have described dangerously dysfunctional work environments characterized by the following as primary contributors to the problem:[52]

- Employee work driven by TNC (time, numbers, and crises).
- Rapid and unpredictable change where instability and uncertainty plague employees.
- Destructive communication style where managers communicate in an excessively aggressive, condescending, explosive, or passive-aggressive styles; excessive workplace teasing or scapegoating.
- Authoritarian leadership with a rigid, militaristic mind-set of managers versus employees; employees aren't allowed to challenge ideas, participate in decision making, or engage in team-building efforts.
- Defensive attitude where little or no performance feedback is given; only numbers count; and yelling, intimidation, or avoidance is the preferred way of handling conflict.
- Double standards in terms of policies, procedures, and training opportunities for managers and employees.
- Unresolved grievances because the organization provides no mechanisms or only adversarial ones for resolving them; dysfunctional individuals may be protected or ignored because of long-standing rules, union contract provisions, or reluctance to take care of problems.
- Emotionally troubled employees and no attempt by managers to get help for these people.
- Repetitive, boring work with no chance for doing something else or for new people coming in.
- Faulty or unsafe equipment or deficient training, which keeps employees from being able to work efficiently or effectively.
- Hazardous work environment in terms of temperature, air quality, repetitive motions, overcrowded spaces, noise levels, excessive overtime, and so forth. To minimize costs,

no additional employees are hired when workload becomes excessive, leading to potentially dangerous work expectations and conditions.

- Culture of violence that has a history of individual violence or abuse; violent or explosive role models; or tolerance of on-the-job alcohol or drug abuse.

Reading through this list, you surely hope that workplaces where you'll spend your professional life won't be like this. However, the competitive demands of succeeding in a 24/7 global economy put pressure on organizations and employees in many ways.

What can managers do to deter or reduce possible workplace violence? Once again, the concept of feedforward, concurrent, and feedback control can help identify actions that managers can take.[53] Exhibit 18-12 summarizes several suggestions.

Controlling Customer Interactions

Every month, every local branch of Enterprise Rent-a-Car conducts telephone surveys with customers.[54] Each branch earns a ranking based on the percentage of its customers who say they were "completely satisfied" with their last Enterprise experience—a level of satisfaction referred to as "top box." Top box performance is important to Enterprise because completely satisfied customers are far more likely to be repeat customers. By using this service quality index measure, employees' careers and financial aspirations are linked with the organizational goal of providing consistently superior service to each and every customer. Managers at Enterprise Rent-a-Car understand the connection between employees and customers and the importance of controlling these customer interactions.

There's probably no better area to see the link between planning and controlling than in customer service. If a company proclaims customer service as one of its goals, it quickly and clearly becomes apparent whether that goal is being achieved by seeing how satisfied

EXHIBIT 18-12

Controlling Workplace Violence

Feedforward	Concurrent	Feedback
MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other.	Ensure management commitment to functional, not dysfunctional, work environments.	Communicate openly about incidences and what's being done.
Provide employee assistance programs (EAPs) to help employees with behavioral problems.	Allow employees or work groups to "grieve" during periods of major organizational change.	Investigate incidences and take appropriate action.
Enforce organizational policy that any workplace rage, aggression, or violence will not be tolerated.	Be a good role model in how you treat others.	Review company policies and change, if necessary.
Use careful prehiring screening.	Use corporate hotlines or some other mechanism for reporting and investigating incidences.	
Never ignore threats.	Use quick and decisive intervention.	
Train employees about how to avoid danger if situation arises.	Get expert professional assistance if violence erupts.	
Clearly communicate policies to employees.	Provide necessary equipment or procedures for dealing with violent situations (cell phones, alarm system, code names or phrases, and so forth).	

Sources: Based on M. Gorkin, "Five Strategies and Structures for Reducing Workplace Violence," *Workforce Management Online,* December 3, 2000; "Investigating Workplace Violence: Where Do You Start? *Workforce Management Online,* December 3, 2000; "Ten Tips on Recognizing and Minimizing Violence," *Workforce Management Online,* December 3, 2000; and "Points to Cover in a Workplace Violence Policy," *Workforce Management Online,* December 3, 2000.

customers are with their service! How can managers control the interactions between the goal and the outcome when it comes to customers? The concept of a service profit chain can help.[55]

A **service profit chain** is the service sequence from employees to customers to profit. According to this concept, the company's strategy and service delivery system influence how employees deal with customers; that is, how productive they are in providing service and the quality of that service. The level of employee service productivity and service quality influences customer perceptions of service value. When service value is high, it has a positive impact on customer satisfaction, which leads to customer loyalty. And customer loyalty improves organizational revenue growth and profitability.

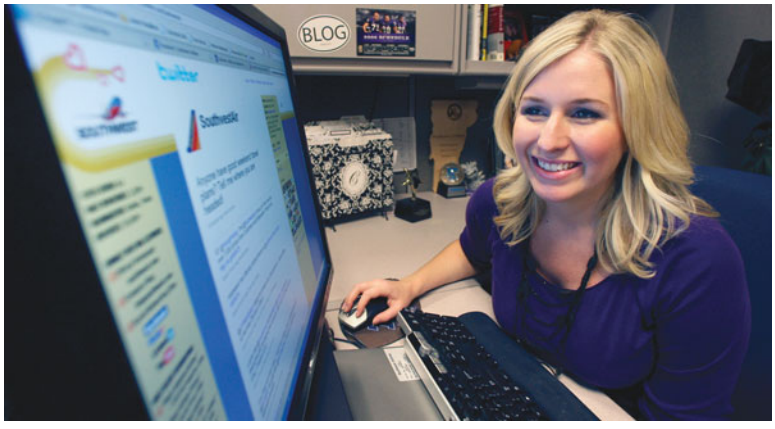
What does this concept mean for managers? Managers who want to control customer interactions should work to create long-term and mutually beneficial relationships among the company, employees, and customers. How? By creating a work environment that enables employees to deliver high levels of quality service and which makes them feel they're capable of delivering top-quality service. In such a service climate, employees are motivated to deliver superior service. Employee efforts to satisfy customers, coupled with the service value provided by the organization, improve customer satisfaction. And when customers receive high service value, they're loyal and return, which ultimately improves the company's growth and profitability.

There's no better example of this concept in action than Southwest Airlines, which is the most consistently profitable U.S. airline (the year 2009 marked 37 straight profitable years). Its customers are fiercely loyal because the company's operating strategy (hiring, training, rewards and recognition, teamwork, and so forth) is built around customer service. Employees consistently deliver outstanding service value to customers. And Southwest's customers reward the company by coming back. It's through efficiently and effectively controlling these customer interactions that companies like Southwest and Enterprise have succeeded.

Corporate Governance

Although Andrew Fastow—Enron's former chief financial officer who pled guilty to wire and securities fraud—had an engaging and persuasive personality, that still didn't explain why Enron's board of directors failed to raise even minimal concerns about management's questionable accounting practices. The board even allowed Fastow to set up off-balance-sheet partnerships for his own profit at the expense of Enron's shareholders.

Corporate governance, the system used to govern a corporation so that the interests of corporate owners are protected, failed abysmally at Enron, as it has at many companies caught in financial scandals. In the aftermath of these scandals, corporate governance has been reformed. Two areas where reform has taken place are the role of



Christi Day, public relations coordinator at Southwest Airlines, monitors the airline's social networking sites at company headquarters in Dallas, Texas. Social networking gives customers the opportunity to share their experiences as passengers, and it allows the airline to reach out and respond to customers' comments and concerns. It's a great way for Southwest to develop relationships with customers and to make them feel like the airline appreciates their business and values their input. By efficiently and effectively controlling customer interactions at its social networking sites, Southwest can improve the delivery of quality service that results in satisfied and loyal customers and increased company growth and profitability.

boards of directors and financial reporting. Such reforms aren't limited to U.S. corporations; corporate governance problems are global.[56] Some 75 percent of senior executives at U.S. and Western European corporations expect their boards of directors to take a more active role.[57]

THE ROLE OF BOARDS OF DIRECTORS. The original purpose of a board of directors was to have a group, independent from management, looking out for the interests of shareholders who were not involved in the day-to-day management of the organization. However, it didn't always work that way. Board members often enjoyed a cozy relationship with managers in which each took care of the other.

This type of "quid pro quo" arrangement has changed. The Sarbanes-Oxley Act puts greater demands on board members of publicly traded companies in the United States to do what they were empowered and expected to do.[58] To help boards do this better, researchers at the Corporate Governance Center at Kennesaw State University developed 13 governance principles for U.S. public companies. (See [www.kennesaw.edu/cgc/21stcentury_2007.pdf] for a list and discussion of these principles.)

FINANCIAL REPORTING AND THE AUDIT COMMITTEE. In addition to expanding the role of boards of directors, the Sarbanes-Oxley Act also called for more disclosure and transparency of corporate financial information. In fact, senior managers in the United States are now required to certify their companies' financial results. Such changes have led to better information—that is, information that is more accurate and reflective of a company's financial condition. In fulfilling their financial reporting responsibilities, managers might want to follow the principles also developed by the researchers at the Corporate Governance Center at Kennesaw State University. These 15 principles also can be found at [www.kennesaw.edu/cgc/21stcentury_2007.pdf].

service profit chain
The service sequence from employees to customers to profit

corporate governance
The system used to govern a corporation so that the interests of corporate owners are protected

What Would You Do?

Mike Stutzman
Rockwell Collins
Cedar Rapids, IA

Let's Get Real:

My Response *to A Manager's Dilemma, page 486*

I do believe more controls could have helped. However, not in the sense of the *number* of controls, but more along the lines of how the controls were managed. I have found that it's not so much the formality or complexity of the internal controls themselves that have a tendency to fail, it's the behavioral side of how people implement and manage them.

I work in an industry, Aerospace and Aviation Electronics solutions, that demands flawless execution or people's lives are potentially impacted. Our success is not based in the sheer number of controls we have, but rather around how they are managed. In a truly effective controlled environment

- People need to feel safe to speak up when errors occur or to question a process.
- Criticism is given in a way that does not threaten or create a negative stigma.
- Leaders are skilled in holding high-stakes conversations.

I believe in the case of the FIL and Vancouver Organizing Committee that the pressures included time, schedules, and public image, which may have led to a breakdown in the control process.

The eventual solution was to move the starting gate for the luge down the hill to reduce the speed. This outcome suggests a design flaw that may have been discovered through a more thorough analysis and testing of the control processes.

CHAPTER SUMMARY
by Learning Outcomes

Explain the nature and importance of control.

LEARNING OUTCOME 18.1

Controlling is the process of monitoring, comparing, and correcting work performance. As the final step in the management process, controlling provides the link back to planning. If managers didn't control, they'd have no way of knowing whether goals were being met.

Control is important because (1) it's the only way to know if goals are being met, and if not, why; (2) it provides information and feedback so managers feel comfortable empowering employees; and (3) it helps protect an organization and its assets.

Describe the three steps in the control process.

LEARNING OUTCOME 18.2

The three steps in the control process are measuring, comparing, and taking action. Measuring involves deciding how to measure actual performance and what to measure. Comparing involves looking at the variation between actual performance and the standard (goal). Deviations outside an acceptable range of variation need attention.

Taking action can involve doing nothing, correcting the actual performance, or revising the standards. Doing nothing is self-explanatory. Correcting the actual performance can involve different corrective actions, which can either be immediate or basic. Standards can be revised by either raising or lowering them.

Explain how organizational performance is measured.

LEARNING OUTCOME 18.3

Organizational performance is the accumulated results of all the organization's work activities. Three frequently used organizational performance measures include (1) productivity, which is the output of goods or services produced divided by the inputs needed to generate that output; (2) effectiveness, which is a measure of how appropriate organizational goals are and how well those goals are being met; and (3) industry and company rankings compiled by various business publications.

Describe tools used to measure organizational performance.

LEARNING OUTCOME 18.4

Feedforward controls take place before a work activity is done. Concurrent controls take place while a work activity is being done. Feedback controls take place after a work activity is done.

Financial controls that managers can use include financial ratios (liquidity, leverage, activity, and profitability) and budgets. One information control managers can use is an MIS, which provides managers with needed information on a regular basis. Others include comprehensive and secure controls such as data encryption, system firewalls, data backups, and so forth that protect the organization's information.

Balanced scorecards provide a way to evaluate an organization's performance in four different areas rather than just from the financial perspective. Benchmarking provides control by finding the best practices among competitors or noncompetitors and from inside the organization itself.

Discuss contemporary issues in control.

LEARNING OUTCOME 18.5

Adjusting controls for cross-cultural differences may be needed primarily in the areas of measuring and taking corrective actions.

Workplace concerns include workplace privacy, employee theft, and workplace violence. For each of these issues, managers need to have policies in place to control inappropriate actions and ensure that work is getting done efficiently and effectively.

Control is important to customer interactions because employee service productivity and service quality influences customer perceptions of service value. Organizations want long-term and mutually beneficial relationships among their employees and customers.

Corporate governance is the system used to govern a corporation so that the interests of corporate owners are protected.

mymanagementlab To check your understanding of learning outcomes 18.1 – 18.5 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. What is control and how is control related to planning?
2. What are the three steps in the control process? Describe in detail.
3. What is organizational performance?
4. Contrast feedforward, concurrent, and feedback controls.
5. Discuss the various types of tools used to monitor and measure organizational performance.
6. What workplace concerns do managers have to deal with? How might those concerns be controlled?
7. Why is control important to customer interactions?
8. In Chapter 6 we discussed the white-water rapids view of change. Do you think it's possible to establish and maintain effective standards and controls in this type of environment? Discuss.
9. What are some work activities in which the acceptable range of variation might be higher than average? What about lower than average? (Hint: Think in terms of the output from the work activities, who it might affect, and how it might affect them.)
10. "Every individual employee in an organization plays a role in controlling work activities." Do you agree with this statement, or do you think control is something that only managers are responsible for? Explain.

PREPARING FOR: My Career

ETHICS DILEMMA

The practice is called "sweethearting."[59] It's when cashiers use subtle tricks to pass free goods to friends, doing things such as concealing the bar code, slipping an item behind the scanner, passing two items at a time but only charging for one. It's impossible for even the most watchful human eyes to keep it from happening. So retailers are using technology to block it. Surveillance cameras are used to record and study cashiers staffing checkout lines. What do you think? Is surveillance less invasive when it's a computer watching instead of a human? How could organizations make sure they're monitoring employees' work activities ethically?

SKILLS EXERCISE

Developing Your Performance Feedback Skill

About the Skill

One of the more critical feedback sessions will occur when you, as a manager, are using feedback control to address performance issues.

Steps in Practicing the Skill

1. **Schedule the feedback session in advance and be prepared.** One of the biggest mistakes you can make is to treat feedback control lightly. Simply calling in an employee and giving feedback that's not well organized serves little purpose for you and your employee. For feedback to be effective, you must plan ahead. Identify the issues you wish to address and cite specific examples to reinforce what you are saying. Furthermore, set aside the time for the meeting with the employee. Make sure that what you do is done in private and can be completed without interruptions. That may mean closing your office door (if you have one), not taking phone calls, and the like.
2. **Put the employee at ease.** Regardless of how you feel about the feedback, you must create a supportive climate for the employee. Recognize that giving and getting this feedback can be an emotional event even when the feedback is positive. By putting your employee at ease, you begin to establish a supportive environment in which understanding can take place.
3. **Make sure the employee knows the purpose of this feedback session.** What is the purpose of the meeting? That's something any employee will be wondering. Clarifying what you are going to do sets the appropriate stage for what is to come.
4. **Focus on specific rather than general work behaviors.** Feedback should be specific rather than general.

General statements are vague and provide little useful information—especially if you are attempting to correct a problem.

5. **Keep comments impersonal and job-related.** Feedback should be descriptive rather than judgmental or evaluative, especially when you are giving negative feedback. No matter how upset you are, keep the feedback job-related and never criticize someone personally because of an inappropriate action. You're correcting job-related behavior, not the person.
6. **Support feedback with hard data.** Tell your employee how you came to your conclusion on his or her performance. Hard data help your employees to identify with specific behaviors. Identify the "things" that were done correctly and provide a detailed critique. And if you need to criticize, state the basis of your conclusion that a good job was not completed.
7. **Direct the negative feedback toward work-related behavior that the employee controls.** Negative feedback should be directed toward work-related behavior that the employee can do something about. Indicate what he or she can do to improve the situation. This practice helps take the sting out of the criticism and offers guidance to an individual who understands the problem but doesn't know how to resolve it.
8. **Let the employee speak.** Get the employee's perceptions of what you are saying, especially if you are addressing a problem. Of course, you're not looking for excuses, but you need to be empathetic to the employee. Get his or her side. Maybe something has contributed to the issue. Letting the employee speak involves your employee and just might provide information you were unaware of.
9. **Ensure that the employee has a clear and full understanding of the feedback.** Feedback must be concise and complete enough so that your employee clearly and fully understands what you have said. Consistent with active listening techniques, have your employee rephrase the content of your feedback to check whether it fully captures your meaning.
10. **Detail a future plan of action.** Performing doesn't stop simply because feedback occurred. Good performance must be reinforced, and new performance goals set. However, when performance deficiencies are the issue, time must be devoted to helping your employee develop a detailed, step-by-step plan to correct the situation. This plan includes what has to be done, when, and how you will monitor the activities. Offer whatever assistance you can to help the employee, but make it clear that it is the employee, not you, who has to make the corrections.

Practicing the Skill

Think of a skill you would like to acquire or improve, or a habit you would like to break. Perhaps you would like to learn a foreign language, start exercising, quit smoking, ski better, or spend less. For the purpose of this exercise, assume you have three months to make a start on your project and all the necessary funds. Draft a plan of action that outlines what you need to do, when you need to do it, and how you will know that you have successfully completed each step of your plan. Be realistic, but don't set your sights too low either.

Review your plan. What outside help or resources will you require? How will you get them? Add these to your plan. Could someone else follow the steps you've outlined to achieve the goal you set? What modifications would you have to make, if any?

WORKING TOGETHER

Team Exercise

Research says that up to 80 percent of U.S. teens have worked for pay at some time during high school.[60] As the number of employed teens has risen, so has the likelihood of their getting hurt on the job. How can organizations keep teen workers safe?

Form small groups of three to four students. Come up with some ideas about things an organization could do to keep its teen workers safe. Put your ideas in a bulleted list format and be prepared to share those ideas with the class.

MY TURN TO BE A MANAGER

- You have a major class project due in a month. Identify some performance measures that you could use to help you determine whether the project is going as planned and will be completed efficiently (on time) and effectively (high quality).
- How could you use the concept of control in your personal life? Be specific. (Think in terms of feedforward, concurrent, and feedback controls as well as specific controls for the different aspects of your life—school, work, family relationships, friends, hobbies, etc.)

- Survey 30 people as to whether they have experienced office rage. Ask them specifically whether they have experienced any of the following: yelling or other verbal abuse, yelled at coworkers themselves, cried over work-related issues, seen someone purposely damage machines or furniture, seen physical violence in the workplace, or struck a coworker. Compile your findings in a table. Are you surprised at the results? Be prepared to present these in class.
- Pretend you're the manager of a customer call center for timeshare vacations. What types of control measures would you use to see how efficient and effective an employee is? How about measures for evaluating the entire call center?
- Disciplining employees is one of the least favorite tasks of managers, but is something that all managers have to do. Survey three managers about their experiences with employee discipline. What types of employee actions have caused the need for disciplinary action? What disciplinary actions have they used? What do they think is the most difficult thing to do when disciplining employees? What suggestions do they have for disciplining employees?
- Steve's and Mary's recommended readings: Marcus Buckingham, *Go Put Your Strengths to Work* (Free Press, 2007); W. Steven Brown, *13 Fatal Errors Managers Make and How You Can Avoid Them* (Berkley Business, 1987); and Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (Harper Business, 1974).
- Research "The Great Package Race." Write a paper describing what it is and how it's a good example of organizational control.
- In your own words, write down three things you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete these self-assessment exercises: How Good Am I at Disciplining Others? How Willing Am I to Delegate? What Time of Day Am I Most Productive? How Good Am I at Giving Performance Feedback? Using the results of your assessments, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Deepwater in Deep Trouble

Strong warning signs indicated serious problems with well equipment and other safety aspects of the Deepwater Horizon oil rig, but a lack of effective controls needed to protect the rig as the employees' workplace resulted in a tragic explosion and oil spill.

When all is said and done, which may not be for many years, it's likely to be one of the worst environmental disasters, if not the worst, in U.S. history.[61] When British Petroleum's (BP) Deepwater Horizon off-shore rig in the Gulf of Mexico exploded in a ball of flames on April 20, 2010, killing 11 employees, it set in motion frantic efforts to stop the flow of oil and to initiate the long and arduous cleanup process. Although the impacts of the explosion and oil spill were felt most intensely by businesses and residents along the coast and by coastal wildlife, those of us inland who watched the disaster unfold were also stunned and dismayed by what we saw happening. What led to this disaster and what can BP do to ensure that the likelihood of it ever happening again is minimized?

One thing that has come to light in the disaster investigation is that it's no surprise that something like this happened. After Hurricane Dennis blew through in July 2005, a passing ship was shocked to see BP's new massive $1 billion Thunder Horse oil platform "listing precariously to one side, looking for all the world as if it were about to sink." Thunder Horse "was meant to be the company's crowning glory, the embodiment of its bold gamble to outpace its competitors in finding and exploiting the vast reserves of oil beneath the waters of the gulf." But the problems with this rig soon

became evident. A valve installed backwards caused it to flood during the hurricane even before any oil had been pumped. Other problems included a welding job so shoddy that it left underwater pipelines brittle and full of cracks. "The problems at Thunder Horse were not an anomaly, but a warning that BP was taking too many risks and cutting corners in pursuit of growth and profits."

Then came the tragic explosion on the Deepwater Horizon. Before the rig exploded, strong warning signs indicated that something was terribly wrong with the oil well. Among the red flags were several equipment readings suggesting that gas was bubbling into the well, a potential sign of an impending blowout. Those red flags were ignored. Other decisions made in the 24 hours before the explosion included a critical decision to replace heavy mud in the pipe rising from the seabed with seawater, again possibly increasing the risk of an explosion. Internal BP documents also show serious problems and safety concerns with Deepwater. Those problems involved the well casing and blowout preventer. One BP senior drilling engineer warned, "This would certainly be a worst-case scenario."

The federal panel charged with investigating the spill has been examining 20 "anomalies in the well's behavior and the crew's response." The panel is also investigating in particular why "rig workers missed telltale signs that the well was close to an uncontrolled blowout."

Discussion Questions

1. What type(s) of control—feedforward, concurrent, or feedback—do you think would have been most useful in this situation? Explain your choice(s).
2. Using Exhibit 18-2, explain what BP could have done better.
3. Why do you think company employees ignored the red flags? How could such behavior be changed in the future?
4. What could other organizations learn from BP's mistakes?

CASE APPLICATION 2

Baggage Blunders

Terminal 5 (T5), built by British Airways for $8.6 billion, is London Heathrow Airport's newest state-of-the-art facility.[62] Made of glass, concrete, and steel, it's the largest free-standing building in the United Kingdom and has more than 10 miles of belts for moving luggage. At the terminal's unveiling in March of 2008, Queen Elizabeth II called it a "twenty-first-century gateway to Britain." Alas . . . the accolades didn't last long! After two decades in planning and 100 million hours in manpower, opening day didn't work out as planned. Endless lines and major baggage handling delays led to numerous flight cancellations stranding many irate passengers. Airport operators said the problems were triggered by glitches in the terminal's high-tech baggage-handling system.

With its massive automation features, T5 was planned to ease congestion at Heathrow and improve the flying experience for the 30 million passengers expected to pass through it annually. With 96 self-service check-in kiosks, more than 90 fast check-in bag drops, 54 standard check-in desks, and miles of suitcase-moving belts estimated to be able to process 12,000 bags per hour, the facility's design seemed to support those goals.

However, within the first few hours of the terminal's operation, problems developed. Presumably understaffed, baggage workers were unable to clear incoming luggage fast enough. Arriving passengers waited more than an hour for their bags. Departing passengers tried in vain to check in for flights. Flights left with empty cargo holds. Sometime on day one, the airline checked in only those passengers with no luggage. And it didn't help that the moving belt system jammed at one point. Lesser problems also became apparent: a few broken escalators, some hand dryers that didn't work, a gate that wouldn't function at the new Underground station,

and inexperienced ticket sellers who didn't know the fares between Heathrow and various stations on the Piccadilly line. By the end of the first full day of operation, Britain's Department of Transportation released a statement calling for British Airways and the airport operator BAA to "work hard to resolve these issues and limit disruptions to passengers."

You might be tempted to think that all of this could have been prevented if British Airways had only tested the system. But thorough runs of all systems "from toilets to check in and seating" took place six months before opening, including four full-scale test runs using 16,000 volunteers.

Although T5's debut was far from perfect, things have certainly changed. A recent customer satisfaction survey showed that 80 percent of passengers waited less than five minutes to check in. And those passengers are extremely satisfied with the terminal's lounges, catering, facilities, and ambience. It's a nice ending to the chaotic beginning.

Discussion Questions

1. What type of control—feedforward, concurrent, or feedback—do you think would be most important in this situation? Explain your choice.
2. How might immediate corrective action have been used in this situation? How about basic corrective action?
3. Could British Airways' controls have been more effective? How?
4. What role would information controls play in this situation? Customer interaction controls? Benchmarking?

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19 CHAPTER

Let's Get Real:

Meet the Manager

You'll be hearing more from this real manager throughout the chapter.

Andy Pothast
Plant Manager
Sargento Foods, Inc.
Hilbert, WI

MY JOB:
I'm a plant manager for Sargento Foods Inc. and am responsible for the day-to-day operations of a food manufacturing plant that specializes in the production of cheese products sold to large restaurant chains and other food companies.

BEST PART OF MY JOB:
The satisfaction of seeing people succeed in reaching their personal goals, which includes promotional opportunities or the plant reaching its yearly goals for safety, quality, cost containment, and service level.

Managing Operations

LEARNING OUTCOMES

19.1 **Explain** the role of operations management. *page 516*

19.2 **Define** the nature and purpose of value chain management. *page 519*

19.3 **Describe** how value chain management is done. *page 521*

19.4 **Discuss** contemporary issues in managing operations. *page 526*

WORST PART OF MY JOB:

Not having the resources sometimes to accomplish everything you want done, which is why as a manager you need to understand the strengths and weaknesses of your people and prioritize tasks that give you the most value.

BEST MANAGEMENT ADVICE EVER RECEIVED:

I have three that come to mind.

- Understand where value is being created in your organization, and lead your people or department to add to this value. As a manager, you need to make sure people are working on value-added tasks.
- "Management by walking around." Get out of your office and talk to people.
- Don't be in a hurry to be promoted to a management position. Management is tough, so learn as much as possible before you take on more responsibilities. You'll know when you're ready.

A Manager's Dilemma

Using millions of parts as small as rivets and as large as five-story buildings, employees at Hyundai Heavy Industries Inc. build as many as 30 ships at one time.[1] And the "factory" stretches for miles over land and sea. "It's an environment that is too large and complex to be able to keep track of the movement in parts and inventory in real time." Hwang See-young, chief information officer at Hyundai Heavy, knew that production efficiency was limited without real-time data. The solution? High-speed wireless networks that employees can access at anytime and anywhere with notebook computers.

With the new technology, data fly around the shipyard complex at 4 megabits per second. Radio sensors track the movements of parts from fabrication shops to the dry dock and onto a ship being constructed. Also, workers on a ship can access plans using notebook computers or handheld phones. They're also able to hold two-way video conversations with ship designers in the office over a mile away. Eventually, they hope to establish communication capabilities with workers inside a ship that is below ground or at sea level. Now, however, Hyundai Heavy wants to implement the technology in its other construction divisions. Suppose that you were in charge of doing this.

What Would You Do?

As the world's largest maker of ships, Hyundai hopes its new technology helps it reduce expenses and streamline production, an important consideration in today's environment. You've probably never given much thought to how organizations "produce" the goods and services that you buy or use. But it's an important process. Without it, you wouldn't have a car to drive or McDonald's fries to snack on, or even a hiking trail in a local park to enjoy. Organizations need to have well-thought-out and well-designed operating systems, organizational control systems, and quality programs to survive in today's increasingly competitive global environment. And it's the manager's job to manage those systems and programs.

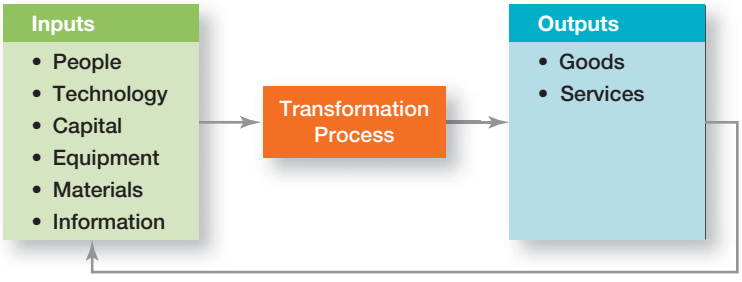
LEARNING OUTCOME 19.1
Explain the role of operations management.

The Role of Operations Management

Inside Intel's factory in New Mexico, employee Trish Roughgarden is known as a "seed"—an unofficial title for technicians who transfer manufacturing know-how from one Intel facility to another.[2] Her job is to make sure that this factory works just like an identical one that opened earlier in Oregon. Then, when a third plant opened in Ireland, several hundred other seeds copied the same techniques. The company's facility in Arizona also benefited from "seeding." What the seeds do is part of a strategy known as "Copy Exactly," which Intel implemented after frustrating variations between factories hurt productivity and product quality. In the intensely competitive chip-making industry, Intel knows that how it manages operations will determine whether it succeeds.

What is **operations management**? The term refers to the transformation process that converts resources into finished goods and services. Exhibit 19-1 portrays this

EXHIBIT 19-1
The Operations System



process in a simplified fashion. The system takes in inputs—people, technology, capital, equipment, materials, and information—and transforms them through various processes, procedures, work activities, and so forth into finished goods and services. Because every unit in an organization produces something, managers need to be familiar with operations management concepts in order to achieve goals efficiently and effectively.

Operations management is important to organizations and managers for three reasons: (1) It encompasses both services and manufacturing; (2) it's important in effectively and efficiently managing productivity; and (3) it plays a strategic role in an organization's competitive success.

Services and Manufacturing

With a menu that offers more than 200 items, The Cheesecake Factory restaurants rely on a finely tuned production system. One food-service consultant says, "They've evolved with this highly complex menu combined with a highly efficient kitchen."[3]

Every organization produces something. Unfortunately, this fact is often overlooked except in obvious cases such as in the manufacturing of cars, cell phones, or lawnmowers. After all, **manufacturing organizations** produce physical goods. It's easy to see the operations management (transformation) process at work in these types of organizations because raw materials are turned into recognizable physical products. But the transformation process isn't as readily evident in **service organizations** that produce nonphysical outputs in the form of services. For instance, hospitals provide medical and health care services that help people manage their personal health, airlines provide transportation services that move people from one location to another, a cruise line provides a vacation and entertainment service, military forces provide defense capabilities, and the list goes on and on. These service organizations also transform inputs into outputs, although the transformation process isn't as easily recognizable as that in manufacturing organizations. Take a university, for example. University administrators bring together inputs—professors, books, academic journals, technology materials, computers, classrooms, and similar resources—to transform "unenlightened" students into educated and skilled individuals who are capable of making contributions to society.

The reason we're making this point is that the U.S. economy, and to a large extent the global economy, is dominated by the creation and sale of services. Most of the world's developed countries are predominantly service economies. In the United States, for instance, almost 77 percent of all economic activity is services and in the European Union, it's nearly 73 percent.[4] In lesser-developed countries, the services sector is less important. For instance, in Nigeria, it accounts for only 33 percent of economic activity; in Laos, only 37 percent; and in Vietnam, 38 percent.[5]

Managing Productivity

One jetliner has roughly 4 million parts. Efficiently assembling such a finely engineered product requires intense focus. Boeing and Airbus, the two major global manufacturers, have copied techniques from Toyota. However, not every technique can be copied because airlines demand more customization than do car buyers and significantly more rigid safety regulations apply to jetliners than to cars.[6] At the Evans Findings Company in East Providence, Rhode Island, which makes the tiny cutting devices on dental-floss containers, one production shift each day is run without people.[7] The company's goal is to do as much as possible with no labor. And it's not because they don't care about their employees. Instead, like many U.S. manufacturers, Evans needed to raise productivity in order to survive, especially against low-cost competitors. So they turned to "lights-out" manufacturing

operations management
The transformation process that converts resources into finished goods and services

manufacturing organizations
Organizations that produce physical goods

service organizations
Organizations that produce nonphysical products in the form of services

where machines are designed to be so reliable that they make flawless parts on their own, without people operating them.

Although most organizations don't make products that have 4 million parts and most organizations can't function without people, improving productivity has become a major goal in virtually every organization. For countries, high productivity can lead to economic growth and development. Employees can receive higher wages and company profits can increase without causing inflation. For individual organizations, increased productivity gives them a more competitive cost structure and the ability to offer more competitive prices.

Over the past decade, U.S. businesses have made dramatic improvements to increase their efficiency. For example, at Latex Foam International's state-of-the-art digital facility in Shelton, Connecticut, engineers monitor all of the factory's operations. The facility boosted capacity by 50 percent in a smaller space but with a 30 percent efficiency gain.[8] And it's not just in manufacturing that companies are pursuing productivity gains. Pella Corporation's purchasing office improved productivity by reducing purchase order entry times anywhere from 50 percent to 86 percent, decreasing voucher processing by 27 percent, and eliminating 14 financial systems. Its information technology department slashed e-mail traffic in half and implemented work design improvements for heavy PC users such as call center users. The human resources department cut the time to process benefit enrollment by 156.5 days. And the finance department now takes 2 days instead of 6 to do its end-of-month closeout.[9]

Organizations that hope to succeed globally are looking for ways to improve productivity. For example, McDonald's Corporation drastically reduced the time it takes to cook its french fries—65 seconds as compared to the 210 seconds it once took, saving time and other resources.[10] The Canadian Imperial Bank of Commerce, based in Toronto, automated its purchasing function, saving several million dollars annually.[11] And Skoda, the Czech car company that's a subsidiary of Germany's Volkswagen AG, improved its productivity through an intensive restructuring of its manufacturing process.[12]

Productivity is a composite of people and operations variables. To improve productivity, managers must focus on both. The late W. Edwards Deming, a renowned quality expert, believed that managers, not workers, were the primary source of increased productivity. Some of his suggestions for managers included planning for the long-term future, never being complacent about product quality, understanding whether problems were confined to particular parts of the production process or stemmed from the overall process itself, training workers for the job they're being asked to perform, raising the quality of line supervisors, requiring workers to do quality work, and so forth.[13] As you can see, Deming understood the interplay between people and operations. High productivity can't come solely from good "people management." The truly effective organization will maximize productivity by successfully integrating people into the overall operations system. For instance, at Simplex Nails Manufacturing in Americus, Georgia, employees were an integral part of the company's much-needed turnaround effort.[14] Some production workers were redeployed on a plant-wide cleanup and organization effort, which freed up floor space. The company's sales force was retrained and refocused to sell what customers wanted rather than what was in inventory. The results were dramatic. Inventory was reduced by more than 50 percent, the plant had 20 percent more floor space, orders were more consistent, and employee morale improved. Here's a company that recognized the important interplay between people and the operations system.

Strategic Role of Operations Management

Modern manufacturing originated over 100 years ago in the United States, primarily in Detroit's automobile factories. The success that U.S. manufacturers experienced during World War II led manufacturing executives to believe that troublesome production problems had been conquered. These executives focused, instead, on improving other functional areas such as finance and marketing and paid little attention to manufacturing.

However, as U.S. executives neglected production, managers in Japan, Germany, and other countries took the opportunity to develop modern, computer-based, and technologically advanced facilities that fully integrated manufacturing operations into strategic planning decisions. The competition's success realigned world manufacturing leadership. U.S. manufacturers soon discovered that foreign goods were being made not only less expensively but also with better quality. Finally, by the late 1970s, U.S. executives recognized that they were facing a true crisis and responded. They invested heavily in improving manufacturing technology, increased the corporate authority and visibility of manufacturing executives, and began incorporating existing and future production requirements into the organization's overall strategic plan. Today, successful organizations recognize the crucial role that operations management plays as part of the overall organizational strategy to establish and maintain global leadership.[15]

The strategic role that operations management plays in successful organizational performance can be seen clearly as more organizations move toward managing their operations from a value chain perspective, which we're going to discuss next.

Any guesses as to the world's best global brand . . . for three years running?[16] If you said Coca-Cola, you'd be correct. The company's CEO, Muhtar Kent, recognizes that keeping the Coke family of products number one in customers' minds requires attention to all aspects of production and marketing. Recently, the company worked closely with its biggest bottler to eliminate longstanding "friction points" by creating a joint supply-chain organization. Kent also says that it's important to meet customers' needs and it does that by visiting 20 million shops every week so it can have a pretty good understanding of what's going on with its customers.

What Is Value Chain Management and Why Is It Important?

19.2 LEARNING OUTCOME
Define the nature and purpose of value chain management.

It's 11 P.M., and you're reading a text message from your parents saying they want to buy you a laptop for your birthday this year and to order it. You log on to Dell's Web site and configure your dream machine. You hit the order button and not long after, your dream computer is delivered to your front door, built to your exact specifications, ready to set up and use immediately to type that management assignment due tomorrow. Or consider Siemens AG's Computed Tomography manufacturing plant in Forchheim, Germany, which has established partnerships with about 30 suppliers. These suppliers are partners in the truest sense as they share responsibility with the plant for overall process performance. This arrangement has allowed Siemens to eliminate all inventory warehousing and has streamlined the number of times paper changes hands to order parts from 18 to one. At the Timken's plant in Canton, Ohio, electronic purchase orders are sent across the street to an adjacent "Supplier City" where many of its key suppliers have set up shop. The process takes milliseconds and costs less than 50 cents per purchase order. And when Black & Decker extended its line of handheld tools to include a glue gun, it totally outsourced the entire design and production to the leading glue gun manufacturer. Why? Because they understood that glue guns don't require motors, which was what Black & Decker did best.[17]

As these examples show, closely integrated work activities among many different players are possible. How? The answer lies in value chain management. The concepts of value chain management have transformed operations management strategies and turned organizations around the world into finely tuned models of efficiency and effectiveness strategically positioned to exploit competitive opportunities.

Let's Get Real

Understanding operations management is important because *it will give an individual a strong base of knowledge that can be transferred to any future job one might end up in.*

What Is Value Chain Management?

Every organization needs customers if it's going to survive and prosper. Even a not-for-profit organization must have "customers" who use its services or purchase its products. Customers want some type of value from the goods and services they purchase or use, and these customers decide what has value. Organizations must provide that value to attract

and keep customers. **Value** is defined as the performance characteristics, features, and attributes, and any other aspects of goods and services for which customers are willing to give up resources (usually money). For example, when you purchase Rihanna's new CD at Best Buy, a new pair of Australian sheepskin Ugg boots online at Zappos, a Wendy's bacon cheeseburger at the drive-through location on campus, or a haircut from your local hair salon, you're exchanging (giving up) money in return for the value you need or desire from these products—providing music during your evening study time, keeping your feet warm *and* fashionable during winter's cold weather, alleviating the lunchtime hunger pangs quickly since your next class starts in 15 minutes, or looking professionally groomed for the job interview you've got next week.

How *is* value provided to customers? Through transforming raw materials and other resources into some product or service that end users need or desire when, where, and how they want it. However, that seemingly simple act of turning varied resources into something that customers value and are willing to pay for involves a vast array of interrelated work activities performed by different participants (suppliers, manufacturers, and even customers)—that is, it involves the value chain. The **value chain** is the entire series of organizational work activities that add value at each step from raw materials to finished product. In its entirety, the value chain can encompass the supplier's suppliers to the customer's customer.[18]

Value chain management is the process of managing the sequence of activities and information along the entire value chain. In contrast to supply chain management, which is *internally* oriented and focuses on efficient flow of incoming materials (resources) to the organization, value chain management is *externally* oriented and focuses on both incoming materials and outgoing products and services. Although supply chain management is efficiency oriented (its goal is to reduce costs and make the organization more productive), value chain management is effectiveness oriented and aims to create the highest value for customers.[19]

Goal of Value Chain Management

Who has the power in the value chain? Is it the suppliers providing needed resources and materials? After all, they have the ability to dictate prices and quality. Is it the manufacturer who assembles those resources into a valuable product or service? Their contribution in creating a product or service is quite obvious. Is it the distributor that makes sure the product or service is available where and when the customer needs it? Actually, it's none of these! In value chain management, ultimately customers are the ones with power.[20] They're the ones who define what value is and how it's created and provided. Using value chain management, managers hope to find that unique combination that offers customers solutions to truly meet their unique needs incredibly fast and at a price that can't be matched by competitors.

With these factors in mind then, the goal of value chain management is to create a value chain strategy that meets and exceeds customers' needs and desires and allows for full and seamless integration among all members of the chain. A good value chain involves a sequence of participants working together as a team, each adding some component of value—such as faster assembly, more accurate information, better customer response and service, and so forth—to the overall process.[21] The better the collaboration among the various chain participants, the better the customer solutions. When value is created for customers and their needs and desires are satisfied, everyone along the chain benefits. For example, at Johnson Controls Inc., managing the value chain started first with improved relationships with internal suppliers, then expanded out to external suppliers and customers. As the company's experience with value chain management improved, so did its connection with its customers, which ultimately paid off for all its value chain partners.[22]

Benefits of Value Chain Management

Collaborating with external and internal partners in creating and managing a successful value chain strategy requires significant investments in time, energy, and other resources, and a serious commitment by all chain partners. Given these demands, why would managers

ever choose to implement value chain management? A survey of manufacturers noted four primary benefits of value chain management: improved procurement, improved logistics, improved product development, and enhanced customer order management.[23]

Managing Operations Using Value Chain Management

19.3 LEARNING OUTCOME
Describe how value chain management is done.

Even though it's the world's largest retailer, Walmart Stores still looks for ways to more effectively and efficiently manage its value chain. Its current efforts involve taking over U.S. transportation services from suppliers in an effort to reduce the cost of transporting goods. The goal: "to handle suppliers' deliveries in instances where Walmart can do the same job for less, then use those savings to reduce prices in stores." Walmart believes it has the size and scale to allow it to ship most products more efficiently than the companies that produce the goods.[24]

Even if you're Walmart Stores, managing an organization from a value chain perspective isn't easy. Approaches to giving customers what they want that may have worked in the past are likely no longer efficient or effective. Today's dynamic competitive environment demands new solutions from global organizations. Understanding how and why value is determined by the marketplace has led some organizations to experiment with a new business model, a concept we introduced in Chapter 9. For example, IKEA transformed itself from a small Swedish mail-order furniture operation into one of the world's largest furniture retailers by reinventing the value chain in that industry. The company offers customers well-designed products at substantially lower prices in return for their willingness to take on certain key tasks traditionally done by manufacturers and retailers—assembling furniture and getting it home.[25] The company's creation of a new business model and willingness to abandon old methods and processes has worked well.

Value Chain Strategy

Exhibit 19-2 shows the six main requirements of a successful value chain strategy: coordination and collaboration, technology investment, organizational processes, leadership, employees, and organizational culture and attitudes.

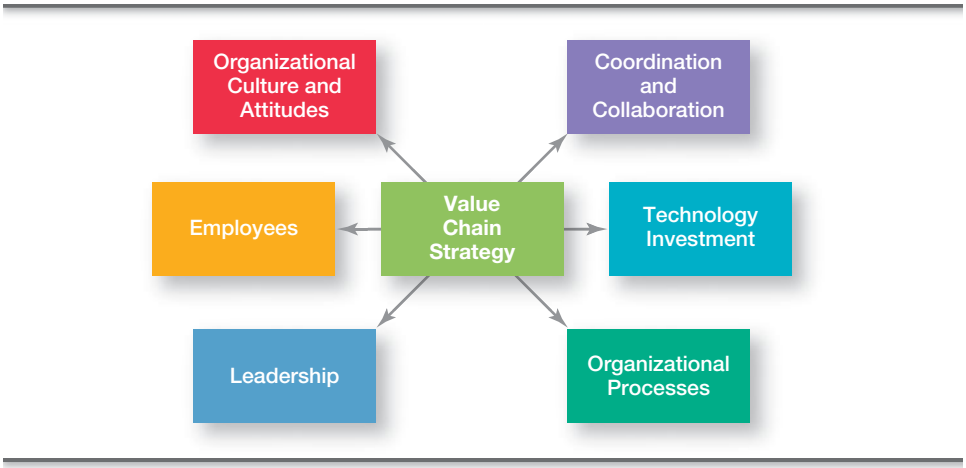


EXHIBIT 19-2
Value Chain Strategy Requirements

value
The performance characteristics, features, and attributes, and any other aspects of goods and services for which customers are willing to give up resources

value chain
The entire series of organizational work activities that add value at each step from raw materials to finished product

value chain management
The process of managing the sequence of activities and information along the entire value chain

COORDINATION AND COLLABORATION. For the value chain to achieve its goal of meeting and exceeding customers' needs and desires, collaborative relationships among all chain participants must exist.[26] Each partner must identify things he or she may not value but that customers do. Sharing information and being flexible as far as who in the value chain does what are important steps in building coordination and collaboration. This sharing of information and analysis requires more open communication among the various value chain partners. For example, Kraft Foods believes that better communication with customers and with suppliers has facilitated timely delivery of goods and services.[27]

TECHNOLOGY INVESTMENT. Successful value chain management isn't possible without a significant investment in information technology. The payoff from this investment, however, is that information technology can be used to restructure the value chain to better serve end users. For example, each year the Houston-based food distributor Sysco ships 21.5 million tons of produce, meats, prepared meals, and other food-related products to restaurants, cafeterias, and sports stadiums. To get all that food safely to the right place at the right time, Sysco relies on a complex web of software, databases, scanning systems, and robotics.[28]

ORGANIZATIONAL PROCESSES. At Pactiv Corporation, which manufactures consumer and food-service packaging, the company relied on a planning process that included three-year breakthrough goals, which were then translated into one-year goals, annual improvement priorities, and measurable targets. This disciplined approach to planning has helped the company grow and achieve its goals.[29]

Value chain management radically changes **organizational processes**—that is, the ways that organizational work is done. When managers decide to manage operations using value chain management, old processes are no longer appropriate. All organizational processes must be critically evaluated from beginning to end to see where value is being added. Non-value-adding activities should be eliminated. Questions such as "Where can internal knowledge be leveraged to improve the flow of material and information?" "How can we better configure our product to satisfy both customers and suppliers?" "How can the flow of material and information be improved?" and "How can we improve customer service?" should be asked for each and every process. For example, when managers at Deere and Company implemented value chain management, a thorough process evaluation revealed that work activities needed to be better synchronized and interrelationships between multiple links in the value chain better managed. They changed numerous work processes division-wide in order to realize greater value.[30]

IKEA's value chain management involves collaboration and coordination with customers in processes that enable the company to offer good quality products at low costs. Rather than offering home delivery and product assembly as other furniture retailers do, IKEA expects customers to perform the transport and assembly processes. The retailer facilitates the transportation process by providing customers with tape measures, pencils, and paper while they shop to record product measurements and offers car roof racks for purchase at cost and mini trucks available for rental. The delight of shoppers shown here at IKEA's first store in the Republic of Ireland attest to the retailer's success in providing the value that customers want.

Three important conclusions can be made about organizational processes. First, better demand forecasting is necessary *and* possible because of closer ties with customers and suppliers. For example, in an effort to make sure that Listerine was on the store shelves when customers wanted it (known in the retail industry as *product replenishment rates*), Walmart and Pfizer's Consumer Healthcare Group collaborated on improving product demand forecast information. Through their mutual efforts, the partners boosted Walmart's sales of Listerine, an excellent outcome for both supplier and retailer. Customers also benefited because they were able to purchase the product when and where they wanted it.

Second, selected functions may need to be done collaboratively with other partners in the value chain. This collaboration may even extend to sharing employees. For instance, Saint-Gobain Performance Plastics places its own employees in customer sites and brings in employees of suppliers and customers to work on its premises.[31]

Finally, new measures are needed for evaluating performance of various activities along the value chain. Because the goal in value chain management is meeting and exceeding customers' needs and desires, managers need a better picture of how well this value is being created and delivered to customers. For example, when Nestlé USA implemented value chain management, it redesigned its metrics system to focus on one consistent set of measurements—including, for instance, accuracy of demand forecasts and production plans, on-time delivery, and customer-service levels—that allowed them to more quickly identify problem areas and take actions to resolve them.[32]

LEADERSHIP. Successful value chain management isn't possible without strong and committed leadership. From top organizational levels to lower levels, managers must support, facilitate, and promote the implementation and ongoing practice of value chain management. Managers must seriously commit to identifying what value is, how that value can best be provided, and how successful those efforts have been. A culture where all efforts are focused on delivering superb customer value isn't possible without a serious commitment on the part of the organization's leaders.

Also, it's important that managers outline expectations for what's involved in the organization's pursuit of value chain management. Ideally, managers start with a vision or mission statement that expresses the organization's commitment to identifying, capturing, and providing the highest possible value to customers. For instance, when American Standard began using value chain management, the CEO held dozens of meetings across the United States to explain the new competitive environment and why the company needed to create better working relationships with its value chain partners in order to better serve the needs of its customers.[33]

Then, managers should clarify expectations regarding each employee's role in the value chain. But clear expectations aren't just important for internal partners. Being clear about expectations also extends to external partners. For example, managers at American Standard identified clear requirements for suppliers and were prepared to drop any that couldn't meet them, and did so. The upside, though, was that those suppliers that met the expectations benefited from more business and American Standard had partners willing to work with them in delivering better value to customers.

EMPLOYEES/HUMAN RESOURCES. When new employees at the Thermo Fisher Scientific plant in Marietta, Ohio, have work-related questions, they can consult with a member of the facility's "Tree of Knowledge." The "tree" is actually a bulletin board with pictures of employees who have worked at the plant for decades.[34]

We know from our discussions of management theories throughout this textbook that employees are an organization's most important resource. Without employees, no products are produced and no services are delivered—in fact, no organized efforts in the pursuit of common goals would be possible. So not surprisingly, employees play an

organizational processes
The ways that organizational work is done

important role in value chain management. The three main human resource requirements for value chain management are flexible approaches to job design, effective hiring process, and ongoing training.

Flexibility is the key to job design in value chain management. Traditional functional job roles—such as marketing, sales, accounts payable, customer service, and so forth—won't work. Instead, jobs must be designed around work processes that create and provide value to customers. It takes flexible jobs and flexible employees. For instance, at Nordson Corporation's facility in Swainsboro, Georgia, workers are trained to do several different tasks, which isn't all that uncommon in many manufacturing plants. What's unique about this facility is that even salaried employees are expected to spend four hours every month building products on the shop floor.[35]

In a value chain organization, employees may be assigned to work teams that tackle a given process and may be asked to do different things on different days depending on need. In such an environment where customer value is best delivered through collaborative relationships that may change as customer needs change and where processes or job descriptions are not standardized, an employee's ability to be flexible is critical. Therefore, the organization's hiring process must be designed to identify those employees who have the ability to learn and adapt.

Finally, the need for flexibility also requires a significant investment in continual and ongoing employee training. Whether that training involves learning how to use information technology software, how to improve the flow of materials throughout the chain, how to identify activities that add value, how to make better decisions faster, or how to improve any other number of potential work activities, managers must see to it that employees have the knowledge and tools they need to do their jobs efficiently and effectively.

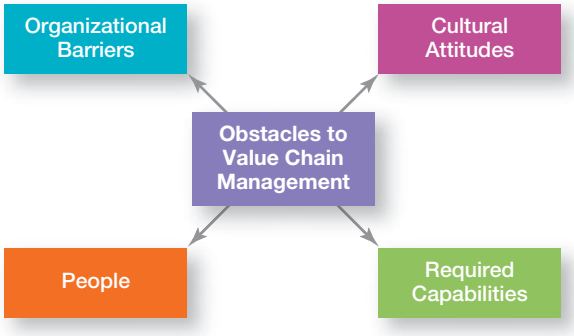
ORGANIZATIONAL CULTURE AND ATTITUDES. The last requirement for value chain management is having a supportive organizational culture and attitudes. From our extensive description of value chain management, you could probably guess the type of organizational culture that's going to support its successful implementation! Those cultural attitudes include sharing, collaborating, openness, flexibility, mutual respect, and trust. These attitudes encompass not only the internal partners in the value chain, but extend to external partners as well.

Obstacles to Value Chain Management

As desirable as these benefits may be, managers must tackle several obstacles in managing the value chain including organizational barriers, cultural attitudes, required capabilities, and people (see Exhibit 19-3).

ORGANIZATIONAL BARRIERS. At General Cable's manufacturing facility in Manchester, New Hampshire, one of the most interesting challenges faced by managers and employees in maintaining its world-class competitiveness is the 23 different nationalities that speak

EXHIBIT 19-3
Obstacles to Value Chain Management



12 languages besides English. Multiple languages make getting new messages out about anything that comes up especially tricky. But they've made it work using visual cues throughout the plant.[36]

Organizational barriers are among the most difficult obstacles to handle. These barriers include refusal or reluctance to share information, reluctance to shake up the status quo, and security issues. Without shared information, close coordination and collaboration is impossible. And the reluctance or refusal of employees to shake up the status quo can impede efforts toward value chain management and prevent its successful implementation. Finally, because value chain management relies heavily on a substantial information technology infrastructure, system security and Internet security breaches are issues that need to be addressed.

CULTURAL ATTITUDES. Unsupportive cultural attitudes—especially trust and control—also can be obstacles to value chain management. The trust issue is a critical one, both lack of trust and too much trust. To be effective, partners in a value chain must trust each other. A mutual respect for, and honesty about, each partner's activities all along the chain is essential. When that trust doesn't exist, the partners will be reluctant to share information, capabilities, and processes. But too much trust also can be a problem. Just about any organization is vulnerable to theft of **intellectual property**—that is, proprietary information that's critical to an organization's efficient and effective functioning and competitiveness. You need to be able to trust your value chain partners so your organization's valuable assets aren't compromised.[37] Another cultural attitude that can be an obstacle is the belief that when an organization collaborates with external and internal partners, it no longer controls its own destiny. However, this lack of control just isn't the case. Even with the intense collaboration that's important to value chain management, organizations still control critical decisions such as what customers value, how much value they desire, and what distribution channels are important.[38]

REQUIRED CAPABILITIES. We know from our earlier discussion of requirements for the successful implementation of value chain management that value chain partners need numerous capabilities. Several of these capabilities—coordination and collaboration, the ability to configure products to satisfy customers and suppliers, and the ability to educate internal and external partners—aren't easy, but they're essential to capturing and exploiting the value chain. Many of the companies we've described throughout this section endured critical, and oftentimes difficult, self-evaluations of their capabilities and processes in order to become more effective and efficient at managing their value chains.

PEOPLE. The final obstacles to successful value chain management can be an organization's people. Without their unwavering commitment to do whatever it takes, value chain management won't be successful. If employees refuse to be flexible in their work—how and with whom they work—collaboration and cooperation throughout the value chain will be hard to achieve.

In addition, value chain management takes an incredible amount of time and energy on the part of an organization's employees. Managers must motivate those high levels of effort from employees, which is not an easy thing to do.

Finally, a major human resource problem is the lack of experienced managers who can lead value chain management initiatives. It's not that widespread, so there aren't a lot of managers who've done it successfully. However, progressive organizations see the benefits to be gained from value chain management and pursue it despite obstacles.

by the numbers[39]

50 percent of manufacturing companies say that three years from now, competition from low-cost countries will be the biggest market pressure on operations.

8 percent of those same manufacturing companies say that environmental compliance will be the biggest market pressure on operations.

58 percent of companies are looking to connect better with their suppliers.

16 percent of employers prefer using employee referrals to locate quality employees.

12 percent of companies say that sustainability is among their top three supply chain priorities.

64 percent of those companies see sustainability as an opportunity for revenue growth.

intellectual property
Proprietary information that's critical to an organization's efficient and effective functioning and competitiveness

LEARNING OUTCOME 19.4
Discuss contemporary issues in managing operations.

Current Issues in Managing Operations

Rowe Furniture had an audacious goal: make a sofa in 10 days. It wanted to "become as efficient at making furniture as Toyota is at making cars." Reaching that goal, however, required revamping its operations management process to exploit technology *and* maintaining quality.[40] Rowe's actions illustrate three of today's most important operations management issues: technology, quality, and mass customization and lean organizations.

Technology's Role in Operations Management

Global positioning systems (GPS) are changing a number of enterprises from shipping to shopping, from health care to law enforcement, and even farming.[41] Like many other technologies, GPS was invented for military use to track weapons and personnel as they moved. Now GPS is being used to track shipping fleets, revitalize consumer products such as watches or photos, and monitor parolees or sex offenders.

As we know from our previous discussion of value chain management, today's competitive marketplace has put tremendous pressure on organizations to deliver products and services that customers value in a timely manner. Smart companies are looking at ways to harness technology to improve operations management. Many fast-food companies are competing to see who can provide faster and better service to drive-through customers. With drive-through now representing a huge portion of sales, faster and better delivery can be a significant competitive edge. For instance, Wendy's has added awnings to some of its menu boards and replaced some of the text with pictures. Others use confirmation screens, a technology that helped McDonald's boost accuracy by more than 11 percent. Technology used by two national chains tells managers how much food they need to prepare by counting vehicles in the drive-through line and factoring in demand for current promotional and popular staple items. Even Domino's is using a new point-of-sale system to attract customers and streamline online orders.[42]

Although an organization's production activities are driven by the recognition that the customer is king, managers still need to be more responsive. For instance, operations managers need systems that can reveal available capacity, status of orders, and product quality while products are in the process of being manufactured, not just after the fact. To connect more closely with customers, production must be synchronized across the enterprise. To avoid bottlenecks and slowdowns, the production function must be a full partner in the entire business system.

What's making such extensive collaboration possible is technology. Technology is also allowing organizations to control costs particularly in the areas of predictive maintenance, remote diagnostics, and utility cost savings. For instance, new Internet-compatible equipment contains embedded Web servers that can communicate proactively—that is, if a piece of equipment breaks or reaches certain preset parameters indicating that it's about to break, it asks for help. But technology can do more than sound an alarm or light up an indicator button. For instance, some devices have the ability to initiate e-mail or signal a pager at a supplier, the maintenance department, or contractor describing the specific problem and requesting parts and service. How much is such e-enabled maintenance control worth? It can be worth quite a lot if it prevents equipment breakdowns and subsequent production downtime.

Managers who understand the power of technology to contribute to more effective and efficient performance know that managing operations is more than the traditional view of simply producing the product. Instead, the emphasis is on working together with all the organization's business functions to find solutions to customers' business problems. Even service providers understand the power of technology for these tasks. For example, Southwest Airlines upgraded its cockpit software, enabling its pilots (who have been extensively trained) to fly precise satellite-based navigation approaches to airports, thus saving fuel, reducing delays, and cutting noise.[43]

Let's Get Real

F2F

The impact of technology in my organization *involves increased product quality while lowering costs because front-line supervisors and machine operators now have real-time data on the production floor; production data are collected instantaneously, allowing operators and supervisors the opportunity to make value decisions during the production run.*

Quality Initiatives

Quality problems are expensive. For example, even though Apple has had phenomenal success with its iPod, the batteries in the first three versions died after 4 hours instead of lasting the up-to-12 hours that buyers expected. Apple's settlement with consumers cost close to $100 million. At Schering-Plough, problems with inhalers and other pharmaceuticals were traced to chronic quality control shortcomings, for which the company eventually paid a $500 million fine. And the auto industry paid $14.5 billion to cover the cost of warranty and repair work in one year.[44]

Many experts believe that organizations unable to produce high-quality products won't be able to compete successfully in the global marketplace. What is quality? When you consider a product or service to have quality, what does that mean? Does it mean that the product doesn't break or quit working—that is, that it's reliable? Does it mean that the service is delivered in a way that you intended? Does it mean that the product does what it's supposed to do? Or does quality mean something else? We're going to define **quality** as the ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations.

How is quality achieved? That's an issue managers must address. A good way to look at quality initiatives is with the management functions—planning, organizing, leading, and controlling—that need to take place.

PLANNING FOR QUALITY. Managers must have quality improvement goals and strategies and plans to achieve those goals. Goals can help focus everyone's attention toward some objective quality standard. For instance, Caterpillar's goal is to apply quality improvement techniques to help cut costs.[45] Although this goal is specific and challenging, managers and employees are partnering together to pursue well-designed strategies to achieve the goals, and are confident they can do so.

ORGANIZING AND LEADING FOR QUALITY. Because quality improvement initiatives are carried out by organizational employees, it's important for managers to look at how they can best organize and lead them. For instance, at the Moosejaw, Saskatchewan, plant of General Cable Corporation, every employee participates in continual quality assurance training. In addition, the plant manager believes wholeheartedly in giving employees the information they need to do their jobs better. He says, "Giving people who are running the machines the information is just paramount. You can set up your cellular structure, you can cross-train your people, you can use lean tools, but if you don't give people information to drive improvement, there's no enthusiasm." Needless to say, this company shares production data and financial performance measures with all employees.[46]

Organizations with extensive and successful quality improvement programs tend to rely on two important people approaches: cross-functional work teams, and self-directed or empowered work teams. Because achieving product quality is something that all employees from upper to lower levels must participate in, it's not surprising that quality-driven organizations rely on well-trained, flexible, and empowered employees.

CONTROLLING FOR QUALITY. Quality improvement initiatives aren't possible without having some way to monitor and evaluate their progress. Whether it involves standards for inventory control, defect rate, raw materials procurement, or other operations management areas, controlling for quality is important. For instance, at the Northrup Grumman Corporation plant in Rolling Meadows, Illinois, several quality controls have been implemented, such as automated testing and IT that integrates product design and

quality
The ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations

manufacturing and tracks process quality improvements. Also, employees are empowered to make accept/reject decisions about products throughout the manufacturing process. The plant manager explains, "This approach helps build quality into the product rather than trying to inspect quality into the product." But one of the most important things they do is "go to war" with their customers—soldiers preparing for war or in live combat situations. Again, the plant manager says, "What discriminates us is that we believe if we can understand our customer's mission as well as they do, we can help them be more effective. We don't wait for our customer to ask us to do something. We find out what our customer is trying to do and then we develop solutions."[47]

These types of quality improvement success stories aren't just limited to U.S. operations. For example, at a Delphi assembly plant in Matamoros, Mexico, employees worked hard to improve quality and made significant strides. Their customer rejection rate on shipped products is now 10 ppm (parts per million), down from 3,000 ppm—an improvement of almost 300 percent.[48] Quality initiatives at several Australian companies including Alcoa of Australia, Wormald Security, and Carlton and United Breweries have led to significant quality improvements.[49] And at Valeo Klimasystemme GmbH of Bad Rodach, Germany, assembly teams build different climate-control systems for high-end German cars including Mercedes and BMW. Quality initiatives by Valeo's employee teams have led to significant improvements in various quality standards.[50]

Quality Goals

To publicly demonstrate their quality commitment, many organizations worldwide have pursued challenging quality goals—the two best-known being ISO 9000 and Six Sigma.

ISO 9000. **ISO 9000** is a series of international quality management standards established by the International Organization for Standardization (www.iso.org), which set uniform guidelines for processes to ensure that products conform to customer requirements. These standards cover everything from contract review to product design to product delivery. The ISO 9000 standards have become the internationally recognized standard for evaluating and comparing companies in the global marketplace. In fact, this type of certification can be a prerequisite for doing business globally. Achieving ISO 9000 certification provides proof that a quality operations system is in place.

As of 2009, more than 1 million certifications had been awarded to organizations in 175 countries. Almost 40,000 U.S. businesses are ISO 9000 certified. Over 200,000 Chinese firms have received certification.[51]

SIX SIGMA. Motorola popularized the use of stringent quality standards more than 30 years ago, through a trademarked quality improvement program called Six Sigma.[52] Very simply, **Six Sigma** is a quality program designed to reduce defects to help lower costs, save time, and improve customer satisfaction. It's based on the statistical standard that establishes a goal of no more than 3.4 defects per million units or procedures. What does the name mean? Sigma is the Greek letter that statisticians use to define a standard deviation from a bell curve. The higher the sigma, the fewer the deviations from the norm—that is, the fewer the defects. At One Sigma, two-thirds of whatever is being measured falls within the curve. Two Sigma covers about 95 percent. At Six Sigma, you're about as close to defect-free as you can get.[53] It's an ambitious quality goal! Although it is an extremely high standard to achieve, many quality-driven businesses are using it and benefiting from it. For instance, General Electric estimates that it has saved billions in costs since 1995, according to company executives.[54] Other well-known companies pursuing Six Sigma include ITT Industries, Dow Chemical, 3M Company, American Express, Sony Corporation, Nokia Corporation, and Johnson & Johnson. Although manufacturers seem to make up the bulk of Six Sigma users, service companies such as financial institutions, retailers, and health care organizations are beginning to apply it. What impact can Six Sigma have? Let's look at an example.

At General Electric, pursuing Six Sigma quality helps the company develop and deliver near-perfect products such as its quiet and energy- and fuel-efficient turbofan jet engine (shown here) that powers Boeing's 777 airliners. Believing that today's competitive environment leaves no room for error, GE has made Six Sigma part of its corporate culture of continuous quality improvement. Focused on making customers more competitive and exceeding their expectations, Six Sigma quality has produced positive results for GE, including improved productivity, streamlined processes, and increased operating margins.

It used to take Wellmark Blue Cross & Blue Shield, a managed-care health care company, 65 days or more to add a new doctor to its medical plans. Now, thanks to Six Sigma, the company discovered that half the processes they used were redundant. With those unnecessary steps gone, the job now gets done in 30 days or less and with reduced staff. The company also has been able to reduce its administrative expenses by $3 million per year, an amount passed on to consumers through lower health care premiums.[55]

Although it's important for managers to recognize that many positive benefits come from reaching Six Sigma or obtaining ISO 9000 certification, the key benefit comes from the quality improvement journey itself. In other words, the goal of quality certification should be having work processes and an operations system in place that enable organizations to meet customers' needs and employees to perform their jobs in a consistently high-quality way.

Mass Customization and Lean Organization

The term *mass customization* seems an oxymoron. However, the design-to-order concept is becoming an important operations management issue for today's managers. **Mass customization** provides consumers with a product when, where, and how they want it.[56] Companies as diverse as BMW, Ford, Levi Strauss, Wells Fargo, Mattel, and Dell are adopting mass customization to maintain or attain a competitive advantage. Mass customization requires flexible manufacturing techniques and continual customer dialogue.[57] Technology plays an important role in both.

With flexible manufacturing, companies have the ability to quickly readjust assembly lines to make products to order. Using technology such as computer-controlled factory equipment, intranets, industrial robots, barcode scanners, digital printers, and logistics software, companies can manufacture, assemble, and ship customized products with customized packaging to customers in incredibly short timeframes. Dell is a good example of a company that uses flexible manufacturing techniques and technology to custom-build computers to customers' specifications.

Technology also is important in the continual dialogue with customers. Using extensive databases, companies can keep track of customers' likes and dislikes. And the Internet

ISO 9000
A series of international quality management standards that set uniform guidelines for processes to ensure products conform to customer requirements

Six Sigma
A quality program designed to reduce defects and help lower costs, save time, and improve customer satisfaction

mass customization
Providing customers with a product when, where, and how they want it

has made it possible for companies to have ongoing dialogues with customers to learn about and respond to their exact preferences. For instance, on Amazon's Web site, customers are greeted by name and can get personalized recommendations of books and other products. The ability to customize products to a customer's desires and specifications starts an important relationship between the organization and the customer. If the customer likes the product and it provides value, he or she is more likely to be a repeat customer.

An intense focus on customers is also important to be a **lean organization**, which is an organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective.[58] Lean organizations drive out all activities that do not add value in customers' eyes. For instance, companies like United Parcel Service, LVMH Moet Hennessy Louis Vuitton, and Harley-Davidson have pursued lean operations. "Lean operations adopt a philosophy of minimizing waste by striving for perfection through continuous learning, creativity, and teamwork."[59] As more manufacturers and service organizations adopt lean principles, they must realize that it's a never-ending journey toward being efficient and effective.

What Would You Do?

Let's Get Real:

My Response *to A Manager's Dilemma, page 516*

Andy Pothast
Plant Manager
Sargento Foods, Inc.
Hilbert, WI

Due to the large scope of this project, I would attack it in smaller pieces. You can't accomplish this task by yourself. A lot of prework is needed before a project team is formed.

Things to think about:

- Is the technology compatible with other divisions?
- Should I start at any particular division?
- Are the other divisions receptive to this technology?
- What are the deliverables of this project?
- What types of technical resources are available from the other construction divisions and from the division that just installed this technology?

After these types of questions are answered, a project team led by you should be created to move the project forward. This team should consist of technical and operations employees who will be directly affected by this technology change. This will help with buy-in.

lean organization
An organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective

CHAPTER SUMMARY
by Learning Outcomes

Explain the role of operations management.

LEARNING OUTCOME 19.1

Operations management is the transformation process that converts resources into finished goods and services.

Manufacturing organizations produced physical goods. Service organizations produce nonphysical outputs in the form of services.

Productivity is a composite of people and operations variables. A manager should look for ways to successfully integrate people into the overall operations systems.

Organizations must recognize the crucial role that operations management plays as part of their overall strategy in achieving successful performance.

Define the nature and purpose of value chain management.

LEARNING OUTCOME 19.2

The value chain is the sequence of organizational work activities that add value at each step from raw materials to finished product. Value chain management is the process of managing the sequence of activities and information along the entire product chain.

The goal of value chain management is to create a value chain strategy that meets and exceeds customers' needs and desires and allows for full and seamless integration among all members of the chain.

Value chain management provides four main benefits: improved procurement, improved logistics, improved product development, and enhanced customer order management.

Describe how value chain management is done.

LEARNING OUTCOME 19.3

The six main requirements for successful value chain management include coordination and collaboration, investment in technology, organizational processes, leadership, employees or human resources, and organizational culture and attitudes.

The obstacles to value chain management include organizational barriers (refusal to share information, reluctance to shake up the status quo, or security issues), unsupportive cultural attitudes, lack of required capabilities, and employees unwilling or unable to do it.

Discuss contemporary issues in managing operations.

LEARNING OUTCOME 19.4

Companies are looking at ways to harness technology to improve their operations management by extensive collaboration and cost control.

ISO 9000 is a series of international quality management standards that set uniform guidelines for processes to ensure that products conform to customer requirements. Six Sigma is a quality standard that establishes a goal of no more than 3.4 defects per million units or procedures.

Mass customization provides customers with a product when, where, and how they want it. It requires flexible manufacturing techniques and continual customer dialogue. A lean organization is one that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective.

mymanagementlab

To check your understanding of learning outcomes 19.1 – 19.4 go to mymanagementlab.com and try the chapter questions.

REVIEW AND DISCUSSION QUESTIONS

1. What is operations management?
2. Do you think that manufacturing or service organizations have the greater need for operations management? Explain.
3. What is a value chain and what is value chain management? What is the goal of value chain management? What are the benefits of value chain management?
4. What is required for successful value chain management? What obstacles exist to successful value chain management?
5. How could you use value chain management in your everyday life?
6. How does technology play a role in manufacturing?
7. What are ISO 9000 and Six Sigma?
8. Describe lean management and explain why it's important.
9. How might operations management apply to other managerial functions besides control?
10. Which is more critical to success in organizations: continuous improvement or quality control? Support your position.

PREPARING FOR: My Career

ETHICS DILEMMA

What happens when one partner in a value chain wields its power and makes significant demands?[60] For example, Walmart Stores first required its major suppliers to have **RFID** (radio frequency identification) tags installed on all their products. In doing so, Walmart hoped to save more than $8 billion annually by reducing theft and stocking out of items. But it cost each supplier up to $23 million to meet this demand. Then, Walmart offered some of its suppliers an alternative to their traditional means of financing deliveries to the retailer. Walmart said that the move was to improve stability of merchandise supplies. But some lenders expressed concerns about the program. Wamart's latest "offer" to its suppliers is to grab control of deliveries from the manufacturer because it believes it can do the same job for less. Of course, the manufacturers would be expected to compensate Walmart by giving the retailer lower wholesale prices. What do you think of these practices? Is it just smart business or does it present ethical issues? Discuss.

SKILLS EXERCISE

Developing Your Negotiating Skill

About the Skill

Negotiating is another interpersonal skill that managers use. For instance, they may have to negotiate salaries for incoming employees, negotiate for resources from their managers, work out differences with associates, or resolve conflicts with subordinates. **Negotiation** is a process of bargaining in which two or more parties who have different preferences must make joint decisions and come to an agreement.

Steps in Practicing the Skill

You can be more effective at negotiating if you use the following six recommended behaviors.[61]

1. *Research the individual with whom you will be negotiating.* Acquire as much information as you can about the person with whom you'll be negotiating. What are this individual's interests and goals? Understanding this person's position will help you to better understand his or her behavior, predict his or her responses to your offers, and frame solutions in terms of his or her interests.
2. *Begin with a positive overture.* Research shows that concessions tend to be reciprocated and lead to agreements. Therefore, begin bargaining with a positive overture and then reciprocate the other party's concessions.
3. *Address problems, not personalities.* Concentrate on the negotiation issues, not on the personal characteristics of the individual with whom you're negotiating. When negotiations get tough, avoid the tendency to attack this person. Remember it's that person's ideas or position that you disagree with, not him or her personally.

4. *Pay little attention to initial offers.* Treat an initial offer as merely a point of departure. Everyone must have an initial position. Such positions tend to be extreme and idealistic. Treat them as such.
5. *Emphasize win-win solutions.* If conditions are supportive, look for an integrative solution. Frame options in terms of the other party's interests and look for solutions that can allow this person, as well as yourself, to declare a victory.
6. *Create an open and trusting climate.* Skilled negotiators are better listeners, ask more questions, focus their arguments more directly, are less defensive, and have learned to avoid words or phrases that can irritate the person with whom they're negotiating (such as "generous offer," "fair price," or "reasonable arrangement"). In other words, they are better at creating the open and trusting climate that is necessary for reaching a win-win settlement.

Practicing the Skill

1. Find three people who have recently purchased new or used cars. Interview each to learn which tactics, if any, they used to get a better deal (lower price, more car features, and so forth). Write a short paper comparing your findings and relating it to the negotiating behaviors presented in this section.
2. Research current business periodicals for two examples of negotiations. The negotiations might be labor–management negotiations or they might be negotiations over buying and selling real estate or a business. What did the article say about the negotiation process? Write down specific questions that each party to the negotiation might have had. Pretend that you were a consultant to one of the parties in the negotiation. What recommendations would you have made?

WORKING TOGETHER

Team Exercise

Break into groups of three or four students. Your team's task is to assess how you believe technology will change the way your college disseminates information to students a decade from now. Specifically, what do you believe the typical college's teaching technologies might look like in the year 2020? Here are some questions to ponder:

1. Will there still be a need for a college campus spanning several hundred acres?
2. Will a student be able to complete courses for graduation without ever setting foot on campus?
3. How, if at all, will technology be different in the classroom?
4. What devices might students be using in their quest for knowledge and for passing classes?

MY TURN TO BE A MANAGER

- Select a company with which you're familiar and describe its value chain. Be as specific as possible in your description. Evaluate how it "uses" the value chain to create value.
- Find and describe three examples of mass customization products. Then, try describing what you think has to take place "behind the scenes" to create these products. Focus on the operations management aspects.
- Go to the International Standards Organization Web site [www.iso.org] and look for information on the ISO 9000 standards. Write a report describing the types of things organizations need to do to achieve ISO certification.
- Pick two tasks that you do every week (e.g., shop for groceries, throw a poker party, clean your house/apartment, do laundry, etc.). For each one, identify how you could (1) be more productive in doing that task, and (2) have higher-quality output from that task.
- Choose a large organization that you're interested in. Research this company to find out what types of operations management strategies it uses. Focus on describing what it's doing that's unusual or effective or both.
- Interview two different managers (preferably one from a manufacturing organization and one from a service organization). Ask them about how they manage operations, particularly from the aspects of being productive and producing quality outputs.
- Steve's and Mary's suggested readings: Sydney Finkelstein, *Why Smart Executives Fail and What You Can Learn from Their Mistakes* (Penguin Portfolio, 2003); James L. Heskett, W. Earl Sasser, Jr., and

Leonard A. Schlesinger, *The Value Profit Chain* (Free Press, 2003); William Joyce, Nitin Nohria, and Bruce Roberson, *What Really Works* (Harper Business, 2003); and Harvard Business Review's *Managing the Value Chain* (Harvard Business School Press, 2000).

- Go to the Industry Week Web site [www.industryweek.com] and find the rankings for the IW best plants and the IW 50 best manufacturing companies. What criteria are used to select companies on these lists? Choose two companies on each of these lists and describe what they're doing. Put this information into a written report.
- In your own words, write down three things that you learned in this chapter about being a good manager.
- Self-knowledge can be a powerful learning tool. Go to mymanagementlab.com and complete this self-assessment exercise: What Time of Day Am I Most Productive? Using the results of your assessment, identify personal strengths and weaknesses. What will you do to reinforce your strengths and improve your weaknesses?

CASE APPLICATION 1

Stirring Things Up

To provide the value that attracts and keeps customers, Starbucks is eliminating time-wasting activities of employees and finding ways to keep them productive as part of a lean initiative focused on improving the company's effectiveness and efficiency.

The steaming cup of coffee placed in a customer's hand at any Starbucks store location starts as coffee beans (berries) plucked from fields of coffee plants.[62] From harvest to storage to roasting to retail to cup, Starbucks understands the important role each participant in its value chain plays.

Starbucks offers a selection of coffees from around the world, and its coffee buyers personally travel to the coffee-growing regions of Latin America, Africa/Arabia, and Asia/Pacific to select and purchase the highest-quality arabica beans. Once the beans arrive at any one of its five roasting facilities (in Washington, Pennsylvania, Nevada, South Carolina, or Amsterdam), Starbucks master professional roasters do their "magic" in creating the company's rich signature roast coffees, a process that's the "cumulative result of expert roasters knowing coffee and bringing balance to all of its flavor attributes." Many potential challenges affect the process of "transforming" the raw material into the quality product and experience that customers expect at Starbucks. Weather, shipping and logistics, technology, political instability, and so forth could potentially impact what Starbucks is in business to do. Although those are significant operations management challenges, the most challenging issue facing Starbucks today is balancing its vision of the uniquely Starbucks coffee experience with the realities of selling a $4 latte in today's world.

Starbucks products have become an unaffordable luxury for many. As revenues and profits have fallen during the economic downturn, CEO Howard Schultz realized that "the company needed to change almost everything about how it operates." Although it built its business as "the anti-fast-food joint," the recession and growing competition forced Starbucks to become more streamlined. Under one new initiative put into effect at its U.S. stores, employee time wasters such as bending over to scoop coffee from below the counter, idly standing by waiting for expired coffee to drain, or dawdling at the pastry case are discouraged. Instead, employees are to keep busy doing something, such as helping customers or cleaning. At one of the first stores to implement the "lean" techniques, the store manager looked for ways for her employees to be

more efficient with simple things like keeping items in the same place, moving drink toppings closer to where drinks are handed to customers, and altering the order of assembly. After two months under the new methods, her store experienced a 10 percent increase in transactions.

Discussion Questions

1. Would you describe Starbucks' production/operations technology in its retail stores as unit, mass, or process? Explain your choice. (Hint: You may need to review this material found in Chapter 10.) How does its production/operations technology approach affect the way products are produced?
2. What uncertainties does Starbucks face in its value chain? Can Starbucks manage those uncertainties? If so, how? If not, why not?
3. Go the company's Web site [www.starbucks.com] and find the information on the company's environmental activities from bean to cup. Select one of the steps in the chain (or your professor may assign one). Describe what environmental actions it's taking. How might these affect the way Starbucks "produces" its products?
4. Research further the concept of *lean organizations.* What benefits does "lean" offer? How might a business like Starbucks further utilize the concepts of being lean?

CASE APPLICATION 2

Smooth Ride

Big yellow school buses.[63] They're a common sight at the beginning and end of the school day in many communities. One company that manufactures those school buses is Blue Bird Corporation. School buses are a product where quality is paramount. After all, that product is carrying precious cargo! However, achieving an organizational culture that's dedicated to quality and to efficient manufacturing isn't an easy thing to do.

Blue Bird's plant in Lafayette, Georgia, started on its "lean" journey—that is, having a lean, efficient operation system—in 2003. The manager of engineering said at that time, "Quality was at an all-time low. The plant was lacking in strategic systems and procedures to control quality, materials, production, finance and human resources." That year under new management, Blue Bird got serious about tackling its quality issues and implemented specific programs, including a material review board, a quality control lab equipped with a computerized maintenance management system, an employee suggestion system, weekly management roundtable meetings, and a safety incentive program. One key contributor to the company's success was measurement. They measured everything. The production manager said, "If you don't measure something, you don't know how well you're doing." Just how effective have these programs been?

The customer reject rate is basically zero, with on-time delivery at 100 percent. The director of quality and risk management said, "Doing it right the first time takes a lot less time." Safety has also improved. The company's recordable injury rate was down 65 percent and time lost due to injuries was down by 87 percent. After four years of hard work, the company achieved initial ISO 9001-2000 certification in March 2007. And it was named one of *Industry Week*'s Best Plants in 2007.

However, that's not the end of the story. Like many manufacturers, the global recession hit Blue Bird Corporation hard. The North Georgia facility was closed in August 2010, and all bus assembly operations were centralized into its Fort Valley, Georgia, location. The company's CEO said, "This was a difficult decision, and one not arrived at without significant deliberation. Moving North Georgia's assembly operations to Fort Valley centralizes all production operations, technical staff and services into a single facility. This centralization will facilitate significant efficiencies."

Discussion Questions

1. What has made Blue Bird's quality initiative successful? Discuss how you think each of the programs the company implemented contributed to what it is today.
2. How might value chain management concepts help Blue Bird become even more productive? What would the company have to do to benefit from managing its value chain?
3. From being named a "Best Plant" to being shut down is an ending that you might not have expected. What lesson(s) can be learned from this situation in relation to an organization's operations management?
4. In the announcement about the plant's closure, the CEO said that the centralization of all production operations, technical staff, and services into a single facility would facilitate significant efficiencies. Using what you've learned about operations management, what will it take to achieve such efficiencies?

Appendix

Managing Entrepreneurial Ventures

The Context of Entrepreneurship

Russell Simmons is an entrepreneur.[1] He cofounded Def Jam Records because the emerging group of New York hip-hop artists needed a record company, and the big record companies refused to take a chance on unknown artists. Def Jam was just one piece of Simmons's corporation, Rush Communications, which also included a management company, a clothing company called Phat Farm, a movie production house, television shows, a magazine, and an advertising agency. In 1999, Simmons sold his stake in Def Jam to Universal Music Group, and in 2004, he sold Phat Farm. Today, Simmons is involved in UniRush, a Cincinnati company that sells a prepaid Visa debit card, and Russell Simmons Argyle Culture, a clothing line aimed at older men. *USA Today* named Simmons one of the top 25 Influential People, while *Inc.* magazine named him one of America's 25 Most Fascinating Entrepreneurs.

In this appendix, we're going to look at the activities that entrepreneurs like Russell Simmons engage in. We'll start by looking at the context of entrepreneurship and then examining entrepreneurship from the perspective of the four managerial functions: planning, organizing, leading, and controlling.

What Is Entrepreneurship?

Entrepreneurship is the process of starting new businesses, generally in response to opportunities. Entrepreneurs are pursuing opportunities by changing, revolutionizing, transforming, or introducing new products or services. For example, Hong Liang Lu of UTStarcom knew that less than 10 percent of the Chinese population was served by a landline phone system and service was very poor.[2] He decided that wireless technology might be the answer. Now, his company's inexpensive cell phone service is a hit in China with more than 66 million subscribers and growing. Looking to continue his success, Lu's company is moving into other markets including Africa, Southeast Asia, India, and Panama.

Many people think that entrepreneurial ventures and small businesses are one and the same, but they're not. Some key differences distinguish the two. Entrepreneurs create **entrepreneurial ventures**—organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals. On the other hand, a **small business** is one that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices; and has relatively little impact on its industry.[3] A small business isn't necessarily entrepreneurial because it's small. To be entrepreneurial means that the business must be innovative, seeking out new opportunities. Even though entrepreneurial ventures may start small, they pursue growth. Some new small firms may grow, but many remain small businesses, by choice or by default.

entrepreneurship
The process of starting new businesses, generally in response to opportunities

entrepreneurial ventures
Organizations that pursue opportunities, are characterized by innovative practices, and have growth and profitability as their main goals

small business
An organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices; and has relatively little impact on its industry

Why Is Entrepreneurship Important?

Entrepreneurship is, and continues to be, important to every industry sector in the United States and in most advanced countries.[4] Its importance in the United States can be shown in three areas: innovation, number of new start-ups, and job creation.

INNOVATION. Innovating is a process of changing, experimenting, transforming, revolutionizing, and a key aspect of entrepreneurial activity. The "creative destruction" process that characterizes innovation leads to technological changes and employment growth. Entrepreneurial firms act as "agents of change" by providing an essential source of new and unique ideas that may otherwise go untapped.[5] Statistics back this up. New small organizations generate 24 times more innovations per research and development dollar spent than do *Fortune* 500 organizations, and they account for more than 95 percent of new and "radical" product developments.[6] In addition, the U.S. Small Business Administration's Office of Advocacy reports that small entrepreneurial firms produce 13 to 14 times more patents per employee than large patenting firms.[7] These statistics are further proof of how important small business is to innovation in America.

NUMBER OF NEW START-UPS. Because all businesses—whether they fit the definition of entrepreneurial ventures or not—were new start-ups at one point in time, the most suitable measure we have of the important role of entrepreneurship is to look at the number of new firms over a period of time. Data collected by the U.S. Small Business Administration shows that the number of new start-ups has increased every year since 2002. Estimates for 2008, the latest available data, showed that some 627,200 new businesses were created.[8]

JOB CREATION. We know that job creation is important to the overall long-term economic health of communities, regions, and nations. The latest figures show that small businesses accounted for most of the net new jobs. In fact, over the last 15 years, small businesses have created some 65 percent of the net new jobs.[9] Small organizations have been creating jobs at a fast pace even as many of the world's largest and well-known global corporations continued to downsize. These numbers reflect the importance of entrepreneurial firms as job creators.

GLOBAL ENTREPRENEURSHIP. What about entrepreneurial activity outside the United States? What kind of impact has it had? An annual assessment of global entrepreneurship called the Global Entrepreneurship Monitor (GEM) studies the impact of entrepreneurial activity on economic growth in various countries. The GEM 2009 report covered 54 countries that were divided into three clusters identified by phase of economic development: Factor-Driven economies, Efficiency-Driven economies, and Innovation-Driven economies. What did the researchers find? One of the principal aspects that GEM examines is "total early-stage entrepreneurial activity (TEA)," or the proportion of people who are involved in setting up a business. Generally, as economic development increases, the overall levels of TEA declines. With large variations found in the three different categories, however, it's obvious that countries have "unique sets of economic and social conditions that affect entrepreneurial activity." The GEM report concludes, "There is wide agreement on the importance of entrepreneurship for economic development."[10]

The Entrepreneurial Process

Entrepreneurs must address four key steps as they start and manage their entrepreneurial ventures.

The first is *exploring the entrepreneurial context.* The context includes the realities of today's economic, political/legal, social, and work environment. It's important to look at each of these aspects of the entrepreneurial context because they determine the "rules" of the game and which decisions and actions are likely to meet with success. Also, it's through exploring the context that entrepreneurs confront the next critically important step in the

entrepreneurial process—*identifying opportunities and possible competitive advantages.* We know from our definition of entrepreneurship that the pursuit of opportunities is an important aspect.

Once entrepreneurs have explored the entrepreneurial context and identified opportunities and possible competitive advantages, they must look at the issues involved with actually bringing their entrepreneurial venture to life. Therefore, the next step in the entrepreneurial process is *starting the venture.* Included in this phase are researching the feasibility of the venture, planning the venture, organizing the venture, and launching the venture.

Finally, once the entrepreneurial venture is up and running, the last step in the entrepreneurial process is *managing the venture*, which an entrepreneur does by managing processes, managing people, and managing growth. We can explain these important steps in the entrepreneurial process by looking at what it is that entrepreneurs do.

What Do Entrepreneurs Do?

Describing what entrepreneurs do isn't an easy or simple task! No two entrepreneurs' work activities are exactly alike. In a general sense, entrepreneurs create something new, something different. They search for change, respond to it, and exploit it.

Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with start-up issues. In exploring the entrepreneurial context, entrepreneurs gather information, identify potential opportunities, and pinpoint possible competitive advantage(s). Then, armed with this information, the entrepreneur researches the venture's feasibility—uncovering business ideas, looking at competitors, and exploring financing options.

After looking at the potential of the proposed venture and assessing the likelihood of pursuing it successfully, the entrepreneur proceeds to plan the venture. Planning includes such activities as developing a viable organizational mission, exploring organizational culture issues, and creating a well-thought-out business plan. Once these planning issues have been resolved, the entrepreneur must look at organizing the venture, which involves choosing a legal form of business organization, addressing other legal issues such as patent or copyright searches, and coming up with an appropriate organizational design for structuring how work is going to be done.

Only after these start-up activities have been completed is the entrepreneur ready to actually launch the venture. Such a launch involves setting goals and strategies, and establishing the technology-operations methods, marketing plans, information systems, financial-accounting systems, and cash flow management systems.

Once the entrepreneurial venture is up and running, the entrepreneur's attention switches to managing it. What's involved with actually managing the entrepreneurial venture? An important activity is managing the various processes that are part of every business: making decisions, establishing action plans, analyzing external and internal environments, measuring and evaluating performance, and making needed changes. Also, the entrepreneur must perform activities associated with managing people including selecting and hiring, appraising and training, motivating, managing conflict, delegating tasks, and being an effective leader. Finally, the entrepreneur must manage the venture's growth including such activities as developing and designing growth strategies, dealing with crises, exploring various avenues for financing growth, placing a value on the venture, and perhaps even eventually exiting the venture.

Social Responsibility and Ethics Issues Facing Entrepreneurs

As they launch and manage their ventures, entrepreneurs are faced with the often-difficult issues of social responsibility and ethics. Just how important are these issues to entrepreneurs? An overwhelming majority of respondents (95%) in a study of small companies believed that developing a positive reputation and relationship in communities where they do business is important for achieving business goals.[11] However, despite the importance

these individuals placed on corporate citizenship, more than half lacked formal programs for connecting with their communities. In fact, some 70 percent of the respondents admitted that they failed to consider community goals in their business plans.

Yet, some entrepreneurs take their social responsibilities seriously. For example, Alicia Polak used to work on Wall Street, helping companies go public. In 2004, she founded the Khayelitsha Cookie Company in Khayelitsha, South Africa, 30 minutes from Cape Town. She now employs 11 women from the impoverished community to bake cookies and brownies that are sold to high-end hotels, restaurants, and coffee houses throughout South Africa. Polak says, "My driving force in this company is that I want them [the hundreds of thousands of people living in poverty in South Africa] out of those shacks. I want to help change their lives using this company as a vehicle."[12]

Other entrepreneurs have pursued opportunities with products and services that protect the global environment. For example, Univenture Inc. of Columbus, Ohio, makes recyclable sleeves and packaging for disc media. Its products are better for the environment as compared with the traditional jewel boxes most compact disks are packaged in. Ross Youngs, founder and president/CEO, says, "Our products won't break. If someone throws it away, it's because they don't want it. Hopefully they will end up in the recycle bin because our products are recyclable."[13]

Ethical considerations also play a role in decisions and actions of entrepreneurs. Entrepreneurs do need to be aware of the ethical consequences of what they do. The example they set—particularly for other employees—can be profoundly significant in influencing behavior.

If ethics are important, how do entrepreneurs stack up? Unfortunately, not well! In a survey of employees from different sizes of businesses who were asked if they thought their organization was highly ethical, 20 percent of employees at companies with 99 or fewer employees disagreed.[14]

Start-Up and Planning Issues

Although pouring a bowl of cereal may seem like a simple task, even the most awake and alert morning person has probably ended up with cereal on the floor. Philippe Meert, a product designer based in Erpe-Mere, Belgium, has come up with a better way. Meert sensed an opportunity to correct the innate design flaw of cereal boxes and developed the Cerealtop, a plastic cover that snaps onto a cereal box and channels the cereal into a bowl.[15]

The first thing that entrepreneurs like Philippe Meert must do is to identify opportunities and possible competitive advantages. Once they've identified the opportunities, they're ready to start the venture by researching its feasibility and then planning for its launch. These start-up and planning issues are what we're going to look at in this section.

Identifying Environmental Opportunities and Competitive Advantage

How important is the ability to identify environmental opportunities? Consider the following: More than 4 million baby boomers turn 50 every year. Almost 8,000 turned 60 each day in starting in 2006. More than 57.5 million baby boomers are projected to be alive in 2030, which would put them between the ages of 66 and 84. J. Raymond Elliott, CEO of Zimmer Holdings, is well aware of that demographic trend. Why? His company, which makes orthopedic products, including reconstructive implants for hips, knees, shoulders, and elbows, sees definite marketing opportunities.[16]

In 1994, when Jeff Bezos first saw that Internet usage was increasing by 2,300 percent a month, he knew that something dramatic was happening. "I hadn't seen growth that fast outside of a Petri dish," he said. Bezos was determined to be a part of it. He quit his successful career as a stock market researcher and hedge fund manager on Wall Street and pursued his vision for online retailing, now the Amazon.com Web site.[17]

What would you have done had you seen that type of number somewhere? Ignored it? Written it off as a fluke? The skyrocketing Internet usage that Bezos observed and the

recognition of the baby boomer demographic by Elliott's Zimmer Holdings are prime examples of identifying environmental opportunities. Remember the discussion in Chapter 9 that opportunities are positive trends in external environmental factors. These trends provide unique and distinct possibilities for innovating and creating value. Entrepreneurs need to be able to pinpoint these pockets of opportunities that a changing context provides. After all, "organizations do not see opportunities, individuals do."[18] And they need to do so quickly, especially in dynamic environments, before those opportunities disappear or are exploited by others.[19]

The late Peter Drucker, a well-known management author, identified seven potential sources of opportunity that entrepreneurs might look for in the external context.[20] These include the unexpected, the incongruous, the process need, industry and market structures, demographics, changes in perception, and new knowledge.

1. *The unexpected.* When situations and events are unanticipated, opportunities can be found. The event may be an unexpected success (positive news) or an unexpected failure (bad news). Either way, it may present opportunities for entrepreneurs to pursue. For instance, the dramatic increase in fuel prices has proved to be a bonanza for companies that offer solutions. For instance, Jeff Pink, CEO of EV Rental Cars, uses only hybrid vehicles. The company's utilization rate—the percentage of days a vehicle is out generating revenue—is about 90 percent.[21] The unexpected increase in fuel prices proved to be an opportunity for this entrepreneur. And for RSA Security, the unexpected opportunity came in the form of identity theft. Art Coviello's company develops software that helps make online transactions more secure. He stated, "A lot of factors are about to turn in RSA's favor, namely the need for more secure, traceable financial transactions in a world beset by online fraud and identity theft."[22]
2. *The incongruous.* When something is incongruous, it exhibits inconsistencies and incompatibilities in the way it appears. Things "ought to be" a certain way, but aren't. When conventional wisdom about the way things should be no longer holds true, for whatever reason, opportunities are present. Entrepreneurs who are willing to "think outside the box"—that is, to think beyond the traditional and conventional approaches—may find pockets of potential profitability. Sigi Rabinowicz, founder and president of Tefron, an Israeli firm, recognized incongruities in the way that women's lingerie was made. He knew that a better way was possible. His company spent more than a decade adapting a circular hosiery knitting machine to make intimate apparel that is nearly seamless.[23] Another example of how the incongruous can be a potential source of entrepreneurial opportunity is Fred Smith, founder of FedEx, who recognized in the early 1970s the inefficiencies in the delivery of packages and documents. His approach was: Why not? Who says that overnight delivery isn't possible? Smith's recognition of the incongruous led to the creation of FedEx, now a multibillion-dollar corporation.
3. *The process need.* What happens when technology doesn't immediately come up with the "big discovery" that's going to fundamentally change the nature of some product or service? What happens is the emergence of pockets of entrepreneurial opportunity in the various stages of the process as researchers and technicians continue to work for the monumental breakthrough. Because the full leap hasn't been possible, opportunities abound in the tiny steps. Take the medical products industry, for example. Although researchers haven't yet discovered a cure for cancer, many successful entrepreneurial biotechnology ventures have been created as knowledge about a possible cure continues to grow.
4. *Industry and market structures.* When changes in technology change the structure of an industry and market, existing firms can become obsolete if they're not attuned to the changes or are unwilling to change. Even changes in social values and consumer tastes can shift the structures of industries and markets. These markets and industries become open targets for nimble and smart entrepreneurs. For instance, while working part-time at an auto body shop while finishing his engineering graduate degree, Joe Born wondered if the industrial paint buffer used to smooth out a car's paint job

could be used to smooth out scratches on CDs. He tried it out on his favorite Clint Black CD that had been ruined and the newly polished CD played flawlessly. After this experience, Born spent almost four years perfecting his disk repair kit invention, the SkipDr.[24] The arena of the Internet provides several good examples of existing industries and markets being challenged by upstart entrepreneurial ventures. For instance, eBay has prospered as an online intermediary between buyers and sellers. eBay's CEO says that the company's job is connecting people, not selling them things. And connect them, they do! The online auction firm has more than 275 million registered users.[25]

5. *Demographics.* The characteristics of the world population are changing. These changes influence industries and markets by altering the types and quantities of products and services desired and customers' buying power. Although many of these changes are fairly predictable if you stay alert to demographic trends, others aren't as obvious. Either way, significant entrepreneurial opportunities can be realized by anticipating and meeting the changing needs of the population. For example, Thay Thida was one of three partners in Khmer Internet Development Services (KIDS) in Phnom Penh, Cambodia. She and her cofounders saw the opportunities in bringing Internet service to Cambodians and profited from their entrepreneurial venture.[26]
6. *Changes in perception.* Perception is one's view of reality. When changes in perception take place, the facts do not vary, but their meanings do. Changes in perception get at the heart of people's psychographic profiles—what they value, what they believe in, and what they care about. Changes in these attitudes and values create potential market opportunities for alert entrepreneurs. For example, think about your perception of healthy foods. Changes in our perception of whether certain food groups are good has brought about product and service opportunities for entrepreneurs to recognize and capture. For example, John Mackey started Whole Foods Market in Austin, Texas, as a place for customers to purchase food and other items free of pesticides, preservatives, sweeteners, and cruelty. Now, as the world's number one natural foods chain, Mackey's entrepreneurial venture consists of about 275 stores in the United States, Canada, and the United Kingdom.[27] Michael and Ellen Diamant changed the perception that baby necessities—diaper bags, bottle warmers, and bottle racks—couldn't be fashionable. Their baby gear company, Skip Hop, offers pricey products that design-conscious new parents have embraced.[28]
7. *New knowledge.* New knowledge is a significant source of entrepreneurial opportunity. Although not all knowledge-based innovations are significant, new knowledge ranks pretty high on the list of sources of entrepreneurial opportunity! It takes more than just having new knowledge, though. Entrepreneurs must be able to do something with that knowledge and to protect important proprietary information from competitors. For example, French scientists are using new knowledge about textiles to develop a wide array of innovative products to keep wearers healthy and smelling good. Neyret, the Parisian lingerie maker, created lingerie products woven with tiny perfume microcapsules that stay in the fabric through about 10 washings. Another French company, Francital, developed a fabric treated with chemicals to absorb perspiration and odors.[29]

Being alert to entrepreneurial opportunities is only part of an entrepreneur's initial efforts. He or she must also understand competitive advantage. As we discussed in Chapter 9, when an organization has a competitive advantage, it has something that other competitors don't; does something better than other organizations; or does something that others can't. Competitive advantage is a necessary ingredient for an entrepreneurial venture's long-term success and survival. Getting and keeping a competitive advantage is tough. However, it is something that entrepreneurs must consider as they begin researching the venture's feasibility.

Researching the Venture's Feasibility—Generating and Evaluating Ideas

On a trip to New York, Miho Inagi got her first taste of the city's delicious bagels. After her palate-expanding experience, she had the idea of bringing bagels to Japan. Five years after her first trip to New York and a subsequent apprenticeship at a New York bagel business, Miho opened Maruichi Bagel in Tokyo. After a struggle to get the store up and running, it now has a loyal following of customers.[30]

It's important for entrepreneurs to research the venture's feasibility by generating and evaluating business ideas. Entrepreneurial ventures thrive on ideas. Generating ideas is an innovative, creative process. It's also one that will take time, not only in the beginning stages of the entrepreneurial venture, but throughout the life of the business. Where do ideas come from?

GENERATING IDEAS. Studies of entrepreneurs have shown that the sources of their ideas are unique and varied. One survey found that "working in the same industry" was the major source of ideas for an entrepreneurial venture (60% of respondents).[31] Other sources included personal interests or hobbies, looking at familiar and unfamiliar products and services, and opportunities in external environmental sectors (technological, sociocultural, demographics, economic, or legal-political).

What should entrepreneurs look for as they explore these idea sources? They should look for limitations of what's currently available, new and different approaches, advances and breakthroughs, unfilled niches, or trends and changes. For example, John C. Diebel, founder of Meade Instruments Corporation, the Irvine, California, telescope maker, came up with the idea of putting computerized attachments on the company's inexpensive consumer models so that amateur astronomers could enter on a keypad the coordinates of planets or stars they wanted to see. The telescope would then automatically locate and focus on the desired planetary bodies. It took the company's engineers two years to figure out how to do it, but Meade now controls more than half the amateur astronomy market.[32]

EVALUATING IDEAS. Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. Each of these assessments will provide an entrepreneur with key information about the idea's potential. Exhibit A-1 describes some questions that entrepreneurs might ask as they evaluate potential ideas.

EXHIBIT A-1

Evaluating Potential Ideas

Personal Considerations	Marketplace Considerations
• Do you have the capabilities to do what you've selected? • Are you ready to be an entrepreneur? • Are you prepared emotionally to deal with the stresses and challenges of being an entrepreneur? • Are you prepared to deal with rejection and failure? • Are you ready to work hard? • Do you have a realistic picture of the venture's potential? • Have you educated yourself about financing issues? • Are you willing and prepared to do continual financial and other types of analyses?	• Who are the potential customers for your idea: who, where, how many? • What similar or unique product features does your proposed idea have compared to what's currently on the market? • How and where will potential customers purchase your product? • Have you considered pricing issues and whether the price you'll be able to charge will allow your venture to survive and prosper? • Have you considered how you will need to promote and advertise your proposed entrepreneurial venture?

EXHIBIT A-2

Feasibility Study

A. Introduction, historical background, description of product or service
1. Brief description of proposed entrepreneurial venture
2. Brief history of the industry
3. Information about the economy and important trends
4. Current status of the product or service
5. How you intend to produce the product or service
6. Complete list of goods or services to be provided
7. Strengths and weaknesses of the business
8. Ease of entry into the industry, including competitor analysis

B. Accounting considerations
1. Pro forma balance sheet
2. Pro forma profit and loss statement
3. Projected cash flow analysis

C. Management considerations
1. Personal expertise—strengths and weaknesses
2. Proposed organizational design
3. Potential staffing requirements
4. Inventory management methods
5. Production and operations management issues
6. Equipment needs

D. Marketing considerations
1. Detailed product description
2. Identify target market (who, where, how many)
3. Describe place product will be distributed (location, traffic, size, channels, etc.)
4. Price determination (competition, price lists, etc.)
5. Promotion plans (role of personal selling, advertising, sales promotion, etc.)

E. Financial considerations
1. Start-up costs
2. Working capital requirements
3. Equity requirements
4. Loans—amounts, type, conditions
5. Breakeven analysis
6. Collateral
7. Credit references
8. Equipment and building financing—costs and methods

F. Legal considerations
1. Proposed business structure (type; conditions, terms, liability, responsibility; insurance needs; buyout and succession issues)
2. Contracts, licenses, and other legal documents

G. Tax considerations: sales/property/employee; federal, state, and local

H. Appendix: charts/graphs, diagrams, layouts, résumés, etc.

A more structured evaluation approach that an entrepreneur might want to use is a **feasibility study**—an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility. Not only is a well-prepared feasibility study an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one, it can serve as a basis for the all-important business plan.

A feasibility study should give descriptions of the most important elements of the entrepreneurial venture and the entrepreneur's analysis of the viability of these elements. Exhibit A-2 provides an outline of a possible approach to a feasibility study. Yes, it covers a lot of territory and takes a significant amount of time, energy, and effort to prepare it. However, an entrepreneur's potential future success is worth that investment.

Researching the Venture's Feasibility—Competitors

Part of researching the venture's feasibility is looking at the competitors. What would entrepreneurs like to know about their potential competitors? Here are some possible questions:

What types of products or services are competitors offering?

What are the major characteristics of these products or services?

What are their products' strengths and weaknesses?
How do they handle marketing, pricing, and distributing?
What do they attempt to do differently from other competitors?
Do they appear to be successful at it? Why or why not?
What are they good at?
What competitive advantage(s) do they appear to have?
What are they not so good at?
What competitive disadvantage(s) do they appear to have?
How large and profitable are these competitors?

For instance, the CEO of The Children's Place carefully examined the competition as he took his chain of children's clothing stores nationwide. Although he faces stiff competition from the likes of GapKids, J.C. Penney, and Gymboree, he feels that his company's approach to manufacturing and marketing will give it a competitive edge.[33]

Once an entrepreneur has this information, he or she should assess how the proposed entrepreneurial venture is going to "fit" into this competitive arena. Will the entrepreneurial venture be able to compete successfully? This type of competitor analysis becomes an important part of the feasibility study and the business plan. If, after all this analysis, the situation looks promising, the final part of researching the venture's feasibility is to look at the various financing options. This step isn't the final determination of how much funding the venture will need or where this funding will come from but is simply gathering information about various financing alternatives.

Researching the Venture's Feasibility—Financing

Getting financing isn't always easy. For instance, when William Carey first proposed building a liquor distributor business in Poland, more than 20 investment banking houses in New York passed on funding his idea. Carey recalls, "They didn't know Poland, and the business was small. We were ready to give up." Then, a New York investment banking boutique agreed to fund the venture. Today, Carey's company, CEDC (Central European Distribution), has more than 3,000 employees and sales revenues that top $1.1 billion.[34]

Because funds likely will be needed to start the venture, an entrepreneur must research the various financing options. Possible financing options available to entrepreneurs are shown in Exhibit A-3.

EXHIBIT A-3
Possible Financing Options

- Entrepreneur's personal resources (personal savings, home equity, personal loans, credit cards, etc.)
- Financial institutions (banks, savings and loan institutions, government-guaranteed loan, credit unions, etc.)
- **Venture capitalists**—external equity financing provided by professionally managed pools of investor money
- **Angel investors**—a private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture
- **Initial public offering (IPO)**—the first public registration and sale of a company's stock
- National, state, and local governmental business development programs
- Unusual sources (television shows, judged competitions, etc.)

feasibility study
An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

venture capitalists
External equity financing provided by professionally managed pools of investor money

angel investors
A private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture

initial public offering (IPO)
The first public registration and sale of a company's stock

Planning the Venture—Developing a Business Plan

Planning is also important to entrepreneurial ventures. Once the venture's feasibility has been thoroughly researched, the entrepreneur then must look at planning the venture. The most important thing that an entrepreneur does in planning the venture is developing a **business plan**—a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited.

For many would-be entrepreneurs, developing and writing a business plan seems like a daunting task. However, a good business plan is valuable. It pulls together all of the elements of the entrepreneur's vision into a single coherent document. The business plan requires careful planning and creative thinking. But if done well, it can be a convincing document that serves many functions. It serves as a blueprint and road map for operating the business. And the business plan is a "living" document, guiding organizational decisions and actions throughout the life of the business, not just in the start-up stage.

If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six major areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

EXECUTIVE SUMMARY. The executive summary summarizes the key points that the entrepreneur wants to make about the proposed entrepreneurial venture. These points might include a brief mission statement; primary goals; brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; nature of the business; concise product or service descriptions; brief explanations of market niche, competitors, and competitive advantage; proposed strategies; and selected key financial information.

ANALYSIS OF OPPORTUNITY. In this section of the business plan, an entrepreneur presents the details of the perceived opportunity. Essentially, details include (1) sizing up the market by describing the demographics of the target market, (2) describing and evaluating industry trends, and (3) identifying and evaluating competitors.

ANALYSIS OF THE CONTEXT. Whereas the opportunity analysis focuses on the opportunity in a specific industry and market, the context analysis takes a much broader perspective. Here, the entrepreneur describes the broad external changes and trends taking place in the economic, political-legal, technological, and global environments.

DESCRIPTION OF THE BUSINESS. In this section, an entrepreneur describes how the entrepreneurial venture is going to be organized, launched, and managed. It includes a thorough description of the mission statement; a description of the desired organizational culture; marketing plans including overall marketing strategy, pricing, sales tactics, service-warranty policies, and advertising and promotion tactics; product development plans such as an explanation of development status, tasks, difficulties and risks, and anticipated costs; operational plans including a description of proposed geographic location, facilities and needed improvements, equipment, and work flow; human resource plans including a description of key management persons, composition of board of directors including their background experience and skills, current and future staffing needs, compensation and benefits, and training needs; and an overall schedule and timetable of events.

FINANCIAL DATA AND PROJECTIONS. Every effective business plan contains financial data and projections. Although the calculations and interpretation may be difficult, they are absolutely critical. No business plan is complete without financial information. Financial plans should cover at least three years and contain projected income statements, pro forma cash flow analysis (monthly for the first year and quarterly for the next two), pro forma balance sheets, breakeven analysis, and cost controls. If major equipment or other capital purchases are expected, the items, costs, and available collateral should be listed. All

financial projections and analyses should include explanatory notes, especially where the data seem contradictory or questionable.

SUPPORTING DOCUMENTATION. For this important component of an effective business plan, the entrepreneur should back up his or her descriptions with charts, graphs, tables, photographs, or other visual tools. In addition, it might be important to include information (personal and work-related) about the key participants in the entrepreneurial venture.

Just as the idea for an entrepreneurial venture takes time to germinate, so does the writing of a good business plan. It's important for the entrepreneur to put serious thought and consideration into the plan. It's not an easy thing to do. However, the resulting document should be valuable to the entrepreneur in current and future planning efforts.

Organizing Issues

Donald Hannon, president of Graphic Laminating Inc. in Solon, Ohio, redesigned his organization's structure by transforming it into an employee-empowered company. He wanted to drive authority down through the organization so employees were responsible for their own efforts. One way he did this was by creating employee teams to handle specific projects. Employees with less experience were teamed with veteran employees. He says, "I want to build a good team and give people the ability to succeed. Sometimes that means giving them the ability to make mistakes, and I have to keep that in perspective. The more we allow people to become better at what they do, the better they will become—and the better we all will do."[35]

Once the start-up and planning issues for the entrepreneurial venture have been addressed, the entrepreneur is ready to begin organizing the entrepreneurial venture. Then, the entrepreneur must address five organizing issues: the legal forms of organization, organizational design and structure, human resource management, stimulating and making changes, and the continuing importance of innovation.

Legal Forms of Organization

The first organizing decision that an entrepreneur must make is a critical one. It's the form of legal ownership for the venture. The two primary factors affecting this decision are taxes and legal liability. An entrepreneur wants to minimize the impact of both of these factors. The right choice can protect the entrepreneur from legal liability as well as save tax dollars, in both the short run and the long run.

What alternatives are available? The three basic ways to organize an entrepreneurial venture are sole proprietorship, partnership, and corporation. However, when you include the variations of these basic organizational alternatives, you end up with six possible choices, each with its own tax consequences, liability issues, and pros and cons. These six choices are sole proprietorship, general partnership, limited liability partnership (LLP), C corporation, S corporation, and limited liability company (LLC). Let's briefly look at each one with their advantages and drawbacks. (Exhibit A-4 summarizes the basic information about each organizational alternative.)

SOLE PROPRIETORSHIP. A **sole proprietorship** is a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts. The legal requirements for establishing a sole proprietorship consist of obtaining the necessary local business licenses and permits. In a sole proprietorship, income and losses "pass through" to the owner and are taxed at the owner's personal income tax rate. The biggest drawback, however, is the unlimited personal liability for any and all debts of the business.

business plan
A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

sole proprietorship
A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts

Structure	Ownership Requirements	Tax Treatment	Liability	Advantages	Drawbacks
Sole proprietorship	One owner	Income and losses "pass through" to owner and are taxed at personal rate	Unlimited personal liability	*Low start-up costs* Freedom from most regulations *Owner has direct control* All profits go to owner *Easy to exit business*	Unlimited personal liability *Personal finances at risk* Miss out on many business tax deductions *Total responsibility* May be more difficult to raise financing
General partnership	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Unlimited personal liability	*Ease of formation* Pooled talent *Pooled resources* Somewhat easier access to financing *Some tax benefits*	Unlimited personal liability *Divided authority and decisions* Potential for conflict *Continuity of transfer of ownership*
Limited liability partnership (LLP)	Two or more owners	Income and losses "pass through" to partner and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited, although one partner must retain unlimited liability	*Good way to acquire capital from limited partners*	Cost and complexity of forming can be high *Limited partners cannot participate in management of business without losing liability protection*
C corporation	Unlimited number of shareholders; *no limits on types of stock or voting arrangements*	Dividend income is taxed at corporate and personal shareholder levels; *losses and deductions are corporate*	Limited	*Limited liability* Transferable ownership *Continuous existence* Easier access to resources	Expensive to set up *Closely regulated* Double taxation *Extensive record keeping* Charter restrictions
S corporation	Up to 75 shareholders; *no limits on types of stock or voting arrangements*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocation to partners*	Limited	*Easy to set up* Enjoy limited liability protection and tax benefits of partnership *Can have a tax-exempt entity as a shareholder*	Must meet certain requirements *May limit future financing options*
Limited liability company (LLC)	Unlimited number of "members"; *flexible membership arrangements for voting rights and income*	Income and losses "pass through" to partners and are taxed at personal rate; *flexibility in profit-loss allocations to partners*	Limited	*Greater flexibility* Not constrained by regulations on C and S corporations *Taxed as partnership, not as corporation*	Cost of switching from one form to this can be high *Need legal and financial advice in forming operating agreement*

EXHIBIT A-4

Legal Forms of Business Organization

GENERAL PARTNERSHIP. A **general partnership** is a form of legal organization in which two or more business owners share the management and risk of the business. Even though a partnership is possible without a written agreement, the potential and inevitable problems that arise in any partnership make a written partnership agreement drafted by legal counsel a highly recommended thing to do.

LIMITED LIABILITY PARTNERSHIP (LLP). The **limited liability partnership (LLP)** is a legal organization formed by general partner(s) and limited partner(s). The general partners actually operate and manage the business. They are the ones who have unlimited liability. At least one general partner is necessary in an LLP, but any number of limited partners are allowed. These partners are usually passive investors, although they can make management suggestions to the general partners. They also have the right to inspect the business and make copies of business records. The limited partners are entitled to a share of the business's profits as agreed to in the partnership agreement, and their risk is limited to the amount of their investment in the LLP.

C CORPORATION. Of the three basic types of ownership, the corporation (also known as a C corporation) is the most complex to form and operate. A **corporation** is a legal business entity that is separate from its owners and managers. Many entrepreneurial ventures are organized as a **closely held corporation** which, very simply, is a corporation owned by a limited number of people who do not trade the stock publicly. Whereas the sole proprietorship and partnership forms of organization do not exist separately from the entrepreneur, the corporation does. The corporation functions as a distinct legal entity and, as such, can make contracts, engage in business activities, own property, sue and be sued, and of course, pay taxes. A corporation must operate in accordance with its charter and the laws of the state in which it operates.

S CORPORATION. The **S corporation** (also called a subchapter S corporation) is a specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met. The S corporation has been the classic organizing approach for getting the limited liability of a corporate structure without incurring corporate tax. However, this form of legal organization must meet strict criteria. If any of these criteria are violated, a venture's S status is automatically terminated.

LIMITED LIABILITY COMPANY (LLC). The **limited liability company (LLC)** is a relatively new form of business organization that's a hybrid between a partnership and a corporation. The LLC offers the liability protection of a corporation, the tax benefits of a partnership, and fewer restrictions than an S corporation. However, the main drawback of this approach is that it's quite complex and expensive to set up. Legal and financial advice is an absolute necessity in forming the LLC's **operating agreement**, the document that outlines the provisions governing the way the LLC will conduct business.

SUMMARY OF LEGAL FORMS OF ORGANIZATION. The organizing decision regarding the legal form of organization is an important one because it can have significant tax and

general partnership
A form of legal organization in which two or more business owners share the management and risk of the business

limited liability partnership (LLP)
A form of legal organization consisting of general partner(s) and limited liability partner(s)

corporation
A legal business entity that is separate from its owners and managers

closely held corporation
A corporation owned by a limited number of people who do not trade the stock publicly

S corporation
A specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met

limited liability company (LLC)
A form of legal organization that's a hybrid between a partnership and a corporation

operating agreement
The document that outlines the provisions governing the way an LLC will conduct business

liability consequences. Although the legal form of organization can be changed, it's not an easy thing to do. An entrepreneur needs to think carefully about what's important, especially in the areas of flexibility, taxes, and amount of personal liability in choosing the best form of organization.

Organizational Design and Structure

The choice of an appropriate organizational structure is also an important decision when organizing an entrepreneurial venture. At some point, successful entrepreneurs find that they can't do everything alone. More people are needed. The entrepreneur must then decide on the most appropriate structural arrangement for effectively and efficiently carrying out the organization's activities. Without some suitable type of organizational structure, the entrepreneurial venture may soon find itself in a chaotic situation.

In many small firms, the organizational structure tends to evolve with little intentional or deliberate planning by the entrepreneur. For the most part, the structure may be simple—one person does whatever is needed. As the entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, employees are brought on board to perform certain functions or duties that the entrepreneur can't handle. These individuals tend to perform those same functions as the company grows. Then, as the entrepreneurial venture continues to grow, each of these functional areas may require managers and employees.

With the evolution to a more deliberate structure, the entrepreneur faces a whole new set of challenges. All of a sudden, he or she must share decision making and operating responsibilities. This transition is typically one of the most difficult things for an entrepreneur to do—letting go and allowing someone else to make decisions. *After all*, he or she reasons, *how can anyone know this business as well as I do*? Also, what might have been a fairly informal, loose, and flexible atmosphere that worked well when the organization was small may no longer be effective. Many entrepreneurs are greatly concerned about keeping that "small company" atmosphere alive even as the venture grows and evolves into a more structured arrangement. But having a structured organization doesn't necessarily mean giving up flexibility, adaptability, and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently.

Organizational design decisions in entrepreneurial ventures revolve around the six key elements of organizational structure discussed in Chapter 10: work specialization, departmentalization, chain of command, span of control, amount of centralization-decentralization, and amount of formalization. Decisions about these six elements will determine whether an entrepreneur designs a more mechanistic or organic organizational structure (concepts also discussed in Chapter 10). When would each be preferable? A mechanistic structure would be preferable when cost efficiencies are critical to the venture's competitive advantage, when more control over employees' work activities is important, if the venture produces standardized products in a routine fashion, and when the external environment is relatively stable and certain. An organic structure would be most appropriate when innovation is critical to the organization's competitive advantage; for smaller organizations where rigid approaches to dividing and coordinating work aren't necessary; if the organization produces customized products in a flexible setting; and where the external environment is dynamic, complex, and uncertain.

Human Resource Management Issues in Entrepreneurial Ventures

As an entrepreneurial venture grows, additional employees will need to be hired to perform the increased workload. As employees are brought on board, the entrepreneur faces certain human resource management (HRM) issues. Two HRM issues of particular importance to entrepreneurs are employee recruitment and employee retention.

EMPLOYEE RECRUITMENT. An entrepreneur wants to ensure that the venture has the people to do the required work. Recruiting new employees is one of the biggest challenges that entrepreneurs face. In fact, the ability of small firms to successfully recruit appropriate employees is consistently rated as one of the most important factors influencing organizational success.

Entrepreneurs, particularly, are looking for high-potential people who can perform multiple roles during various stages of venture growth. They look for individuals who "buy into" the venture's entrepreneurial culture—individuals who have a passion for the business. Unlike their corporate counterparts who often focus on filling a job by matching a person to the job requirements, entrepreneurs look to fill in critical skills gaps. They're looking for people who are exceptionally capable and self-motivated, flexible, multiskilled, and who can help grow the entrepreneurial venture. While corporate managers tend to focus on using traditional HRM practices and techniques, entrepreneurs are more concerned with matching characteristics of the person to the values and culture of the organization; that is, they focus on matching the person to the organization.

EMPLOYEE RETENTION. Getting competent and qualified people into the venture is just the first step in effectively managing the human resources. An entrepreneur wants to keep the people he or she has hired and trained. Sabrina Horn, president of The Horn Group based in San Francisco, understands the importance of having good people on board and keeping them. In the rough-and-tumble, intensely competitive public relations industry, Sabrina knows that the loss of talented employees could harm client services. To contend with this issue, she offers employees a wide array of desirable benefits such as raises each year, profit sharing, trust funds for employees' children, paid sabbaticals, personal development funds, and so forth. But more importantly, Sabrina recognizes that employees have a life outside the office and treats them accordingly. This type of HRM approach has kept her employees loyal and productive.[36]

A unique and important employee retention issue entrepreneurs must deal with is compensation. Whereas traditional organizations are more likely to view compensation from the perspective of monetary rewards (base pay, benefits, and incentives), smaller entrepreneurial firms are more likely to view compensation from a total rewards perspective. For these firms, compensation encompasses psychological rewards, learning opportunities, and recognition in addition to monetary rewards (base pay and incentives).[37]

Stimulating and Making Changes

We know that the context facing entrepreneurs is one of dynamic change. Both external and internal forces (see Chapter 6) may bring about the need for making changes in the entrepreneurial venture. Entrepreneurs need to be alert to problems and opportunities that may create the need to change. In fact, of the many hats an entrepreneur wears, that of change agent may be one of the most important.[38] If changes are needed in the entrepreneurial venture, often it is the entrepreneur who first recognizes the need for change and acts as the catalyst, coach, cheerleader, and chief change consultant. Change isn't easy in any organization, but it can be particularly challenging for entrepreneurial ventures. Even if a person is comfortable with taking risks—as entrepreneurs usually are—change can be hard. That's why it's important for an entrepreneur to recognize the critical role he or she plays in stimulating and implementing change. For instance, Jeff Fluhr, CEO of StubHub, Inc., is well aware of the important role he plays in stimulating and implementing changes. As the leading Internet player in the ticket reselling market, Fluhr had to continually look for ways to keep his company competitive. One change was the creation of an exclusive advertising agreement with the National Hockey League to promote StubHub.com on NHL.com.[39] StubHub is now a division of eBay.

During any type of organizational change, an entrepreneur also may have to act as chief coach and cheerleader. Because organizational change of any type can be disruptive and scary, the entrepreneur must explain the change to employees and encourage change efforts by supporting employees, getting them excited about the change, building them up, and motivating them to put forth their best efforts.

Finally, the entrepreneur may have to guide the actual change process as changes in strategy, technology, products, structure, or people are implemented. In this role, the entrepreneur answers questions, makes suggestions, gets needed resources, facilitates conflict, and does whatever else is necessary to get the change(s) implemented.

The Importance of Continuing Innovation

In today's dynamically chaotic world of global competition, organizations must continually innovate new products and services if they want to compete successfully. Innovation is a key characteristic of entrepreneurial ventures and, in fact, it's what makes the entrepreneurial venture "entrepreneurial."

What must an entrepreneur do to encourage innovation in the venture? Having an innovation-supportive culture is crucial. What does such a culture look like?[40] It's one in which employees perceive that supervisory support and organizational reward systems are consistent with a commitment to innovation. It's also important in this type of culture that employees not perceive their workload pressures to be excessive or unreasonable. And research has shown that firms with cultures supportive of innovation tend to be smaller, have fewer formalized human resource practices, and less abundant resources.[41]

Leading Issues

The employees at designer Liz Lange's company have to be flexible. Many don't have job descriptions, and everyone is expected to contribute ideas and pitch in with tasks in all departments. Lange says, "The phrase 'That's not my job' doesn't belong here." In return, Lange is a supportive leader who gives her employees considerable latitude.[42]

Leading is an important function of entrepreneurs. As an entrepreneurial venture grows and people are brought on board, an entrepreneur takes on a new role—that of a leader. In this section, we want to look at what's involved with the leading function. First, we're going to look at the unique personality characteristics of entrepreneurs. Then we're going to discuss the important role entrepreneurs play in motivating employees through empowerment and leading the venture and employee teams.

Personality Characteristics of Entrepreneurs

Think of someone you know who is an entrepreneur. Maybe it's someone you personally know or maybe it's someone like Bill Gates of Microsoft. How would you describe this person's personality? One of the most researched areas of entrepreneurship has been the search to determine what—if any—psychological characteristics entrepreneurs have in common, what types of personality traits entrepreneurs have that might distinguish them from non-entrepreneurs, and what traits entrepreneurs have that might predict who will be a successful entrepreneur.

Is there a classic "entrepreneurial personality"? Trying to pinpoint specific personality characteristics that all entrepreneurs share has the same problem as identifying the trait theories of leadership—that is, being able to identify specific personality traits that *all* entrepreneurs share. This challenge hasn't stopped entrepreneurship researchers from listing common traits, however. For instance, one list of personality characteristics included the following: high level of motivation, abundance of self-confidence, ability to be involved for the long term, high energy level, persistent problem solver, high degree of initiative, ability to set goals, and moderate risk-taker. Another list of characteristics of "successful" entrepreneurs included high energy level, great persistence, resourcefulness, the desire and ability to be self-directed, and relatively high need for autonomy.

Another development in defining entrepreneurial personality characteristics was the proactive personality scale to predict an individual's likelihood of pursuing entrepreneurial ventures. We introduced the **proactive personality** trait in Chapter 14. Recall that it's a personality trait of individuals who are more prone to take actions to influence their environment—that is, they're more proactive. Obviously, an entrepreneur is likely to

exhibit proactivity as he or she searches for opportunities and acts to take advantage of those opportunities. Various items on the proactive personality scale were found to be good indicators of a person's likelihood of becoming an entrepreneur, including gender, education, having an entrepreneurial parent, and possessing a proactive personality. In addition, studies have shown that entrepreneurs have greater risk propensity than do managers. However, this propensity is moderated by the entrepreneur's primary goal. Risk propensity is greater for entrepreneurs whose primary goal is growth versus those whose focus is on producing family income.

Motivating Employees Through Empowerment

At Sapient Corporation (creators of Internet and software systems for e-commerce and automating back-office tasks such as billing and inventory), cofounders Jerry Greenberg and J. Stuart Moore recognized that employee motivation was vitally important to their company's ultimate success.[43] They designed their organization so individual employees are part of an industry-specific team that works on an entire project rather than on one small piece of it. Their rationale was that people often feel frustrated when they're doing a small part of a job and never get to see the whole job from start to finish. They figured people would be more productive if they got the opportunity to participate in all phases of a project.

When you're motivated to do something, don't you find yourself energized and willing to work hard at doing whatever it is you're excited about? Wouldn't it be great if all of a venture's employees were energized, excited, and willing to work hard at their jobs? Having motivated employees is an important goal for any entrepreneur, and employee empowerment is an important motivational tool entrepreneurs can use.

Although it's not easy for entrepreneurs to do, employee empowerment—giving employees the power to make decisions and take actions on their own—is an important motivational approach. Why? Because successful entrepreneurial ventures must be quick and nimble, ready to pursue opportunities and go off in new directions. Empowered employees can provide that flexibility and speed. When employees are empowered, they often display stronger work motivation, better work quality, higher job satisfaction, and lower turnover.

For example, employees at Butler International, Inc., a technology consulting services firm based in Montvale, New Jersey, work at client locations. President and CEO Ed Kopko recognized that employees had to be empowered to do their jobs if they were going to be successful.[44] Another entrepreneurial venture that found employee empowerment to be a strong motivational approach is Stryker Instruments in Kalamazoo, Michigan, a division of Stryker Corporation. Each of the company's production units is responsible for its operating budget, cost reduction goals, customer-service levels, inventory management, training, production planning and forecasting, purchasing, human resource management, safety, and problem solving. In addition, unit members work closely with marketing, sales, and R&D during new product introductions and continuous improvement projects. Says one team supervisor, "Stryker lets me do what I do best and rewards me for that privilege."[45]

Empowerment is a philosophical concept that entrepreneurs have to "buy into." This doesn't come easily. In fact, it's hard for many entrepreneurs to do. Their life is tied up in the business. They've built it from the ground up. But continuing to grow the entrepreneurial venture is eventually going to require handing over more responsibilities to employees. How can entrepreneurs empower employees? For many entrepreneurs, it's a gradual process.

Entrepreneurs can begin by using participative decision making in which employees provide input into decisions. Although getting employees to participate in decisions isn't quite taking the full plunge into employee empowerment, at least it's a way to begin tapping into the collective array of employees' talents, skills, knowledge, and abilities.

proactive personality
A personality trait that describes individuals who are more prone to take actions to influence their environments

Another way to empower employees is through delegation—the process of assigning certain decisions or specific job duties to employees. By delegating decisions and duties, the entrepreneur is turning over the responsibility for carrying them out.

When an entrepreneur is finally comfortable with the idea of employee empowerment, fully empowering employees means redesigning their jobs so they have discretion over the way they do their work. It's allowing employees to do their work effectively and efficiently by using their creativity, imagination, knowledge, and skills.

If an entrepreneur implements employee empowerment properly—that is, with complete and total commitment to the program and with appropriate employee training—results can be impressive for the entrepreneurial venture and for the empowered employees. The business can enjoy significant productivity gains, quality improvements, more satisfied customers, increased employee motivation, and improved morale. Employees can enjoy the opportunities to do a greater variety of work that is more interesting and challenging.

In addition, employees are encouraged to take the initiative in identifying and solving problems and doing their work. For example, at Mine Safety Appliances Company in Pittsburgh, Pennsylvania, employees are empowered to change their work processes in order to meet the organization's challenging quality improvement goals. Getting to this point took an initial 40 hours of classroom instruction per employee in areas such as engineering drawing, statistical process control, quality certifications, and specific work instruction. However, the company's commitment to an empowered workforce has resulted in profitability increasing 57 percent over the last four years and 95 percent of the company's employees achieving multi-skill certifications.[46]

The Entrepreneur as Leader

The last topic we want to discuss in this section is the role of the entrepreneur as a leader. In this role, the entrepreneur has certain leadership responsibilities in leading the venture and in leading employee work teams.

LEADING THE VENTURE. Today's successful entrepreneur must be like the leader of a jazz ensemble known for its improvisation, innovation, and creativity. Max DePree, former head of Herman Miller, Inc., a leading office furniture manufacturer known for its innovative leadership approaches, said it best in his book, *Leadership Jazz*, "Jazz band leaders must choose the music, find the right musicians, and perform—in public. But the effect of the performance depends on so many things—the environment, the volunteers playing the band, the need for everybody to perform as individuals and as a group, the absolute dependence of the leader on the members of the band, the need for the followers to play well. . . . The leader of the jazz band has the beautiful opportunity to draw the best out of the other musicians. We have much to learn from jazz band leaders, for jazz, like leadership, combines the unpredictability of the future with the gifts of individuals."[47]

The way an entrepreneur leads the venture should be much like the jazz leader—drawing the best out of other individuals, even given the unpredictability of the situation. One way an entrepreneur leads is through the vision he or she creates for the organization. In fact, the driving force through the early stages of the entrepreneurial venture is often the visionary leadership of the entrepreneur. The entrepreneur's ability to articulate a coherent, inspiring, and attractive vision of the future is a key test of his or her leadership. But if an entrepreneur can articulate such a vision, the results can be worthwhile. A study contrasting visionary and nonvisionary companies showed that visionary companies outperformed the nonvisionary ones by six times on standard financial criteria, and their stocks outperformed the general market by 15 times.[48]

LEADING EMPLOYEE WORK TEAMS. As we know from Chapter 13, many organizations—entrepreneurial and otherwise—are using employee work teams to perform organizational tasks, create new ideas, and resolve problems.

Employee work teams tend to be popular in entrepreneurial ventures. An *Industry Week* Census of Manufacturers showed that nearly 68 percent of survey respondents used teams

to varying degrees.[49] The three most common ones respondents said they used included empowered teams (teams that have the authority to plan and implement process improvements), self-directed teams (teams that are nearly autonomous and responsible for many managerial activities), and cross-functional teams (work teams composed of individuals from various specialties who work together on various tasks).

These entrepreneurs also said that developing and using teams is necessary because technology and market demands are forcing them to make their products faster, cheaper, and better. Tapping into the collective wisdom of the venture's employees and empowering them to make decisions just may be one of the best ways to adapt to change. In addition, a team culture can improve the overall workplace environment and morale.

For team efforts to work, however, entrepreneurs must shift from the traditional command-and-control style to a coach-and-collaboration style (refer to the discussion of team leadership in Chapter 17). They must recognize that individual employees can understand the business and can innovate just as effectively as they can. For example, at Marque, Inc., of Goshen, Indiana, CEO Scott Jessup recognized that he wasn't the smartest guy in the company as far as production problems, but he was smart enough to realize that, if he wanted his company to expand its market share in manufacturing medical-emergency-squad vehicles, new levels of productivity needed to be reached. He formed a cross-functional team—bringing together people from production, quality assurance, and fabrication—that could spot production bottlenecks and other problems and then gave the team the authority to resolve the constraints.[50]

Controlling Issues

Philip McCaleb still gets a kick out of riding the scooters his Chicago-based company, Genuine Scooter Co., makes. However, in building his business, McCaleb has had to acknowledge his own limitations. As a self-described "idea" guy, he knew that he would need someone else to come in and ensure that the end product was *what* it was supposed to be, *where* it was supposed to be, and *when* it was supposed to be there.[51]

Entrepreneurs must look at controlling their venture's operations in order to survive and prosper in both the short run and long run. Those unique control issues that face entrepreneurs include managing growth, managing downturns, exiting the venture, and managing personal life choices and challenges.

Managing Growth

Growth is a natural and desirable outcome for entrepreneurial ventures. Growth is what distinguishes an entrepreneurial venture. Entrepreneurial ventures pursue growth. Growing slowly can be successful, but so can rapid growth.

Growing successfully doesn't occur randomly or by luck. Successfully pursuing growth typically requires an entrepreneur to manage all the challenges associated with growing—in other words, planning, organizing, and controlling for growth.

PLANNING FOR GROWTH. Although it may seem we've reverted back to discussing planning issues instead of controlling issues, actually controlling is closely tied to planning as we know from our discussion in Chapter 18 (see Exhibit 18-1). And the best growth strategy is a well-planned one.[52] Ideally, the decision to grow doesn't come about spontaneously, but instead is part of the venture's overall business goals and plan. Rapid growth without planning can be disastrous. Entrepreneurs need to address growth strategies as part of their business planning but shouldn't be overly rigid in that planning. The plans should be flexible enough to exploit unexpected opportunities that arise. With plans in place, the successful entrepreneur must then organize for growth.

ORGANIZING FOR GROWTH. The key challenges for an entrepreneur in organizing for growth include finding capital, finding people, and strengthening the organizational culture. Norbert Otto is the founder of Sport Otto, an online business based in Germany

that sold almost $2 million worth of skates, skis, snowboards, and other sporting goods on eBay. As the company grows, Otto is finding that he has to be more organized.[53]

Having enough capital is a major challenge facing growing entrepreneurial ventures. The money issue never seems to go away, does it? It takes capital to expand. The processes of finding capital to fund growth are much like going through the initial financing of the venture. Hopefully, at this time the venture has a successful track record to back up the request. If it doesn't, it may be extremely difficult to acquire the necessary capital. That's why we said earlier that the best growth strategy is a planned one.

Part of that planning should be how growth will be financed. For example, The Boston Beer Company, America's largest microbrewer and producer of Samuel Adams beer, grew rapidly by focusing almost exclusively on increasing its top-selling product line. However, the company was so focused on increasing market share that it had few financial controls and an inadequate financial infrastructure. During periods of growth, cash flow difficulties would force company chairman and brewmaster Jim Koch to tap into a pool of unused venture capital funding. However, when a chief financial officer joined the company, he developed a financial structure that enabled the company to manage its growth more efficiently and effectively by setting up a plan for funding growth.[54]

Another important issue that a growing entrepreneurial venture needs to address is finding people. If the venture is growing quickly, this challenge may be intensified because of time constraints. It's important to plan the numbers and types of employees needed as much as possible in order to support the increasing workload of the growing venture. It may also be necessary to provide additional training and support to employees to help them handle the increased pressures associated with the growing organization.

Finally, when a venture is growing, it's important to create a positive, growth-oriented culture that enhances the opportunities to achieve success, both organizationally and individually. Encouraging the culture can sometimes be difficult to do, particularly when changes are rapidly happening. However, the values, attitudes, and beliefs that are established and reinforced during these times are critical to the entrepreneurial venture's continued and future success. Exhibit A-5 lists some suggestions that entrepreneurs might use to ensure that their venture's culture is one that embraces and supports a climate in which organizational growth is viewed as desirable and important. Keeping employees focused and committed to what the venture is doing is critical to the ultimate success of its growth strategies. If employees don't "buy into" the direction the entrepreneurial venture is headed, it's unlikely the growth strategies will be successful.

CONTROLLING FOR GROWTH. Another challenge that growing entrepreneurial ventures face is reinforcing already established organizational controls. Maintaining good financial records and financial controls over cash flow, inventory, customer data, sales orders, receivables, payables, and costs should be a priority of every entrepreneur—whether pursuing growth or not. However, it's particularly important to reinforce these controls

EXHIBIT A-5

Achieving a Supportive, Growth-Oriented Culture

- Keep the lines of communication open—inform employees about major issues.
- Establish trust by being honest, open, and forthright about the challenges and rewards of being a growing organization.
- Be a good listener—find out what employees are thinking and facing.
- Be willing to delegate duties.
- Be flexible—be willing to change your plans if necessary.
- Provide consistent and regular feedback by letting employees know the outcomes—good and bad.
- Reinforce the contributions of each person by recognizing employees' efforts.
- Continually train employees to enhance their capabilities and skills.
- Maintain the focus on the venture's mission even as it grows.
- Establish and reinforce a "we" spirit that supports the coordinated efforts of all the employees and helps the growing venture be successful.

when the entrepreneurial venture is expanding. It's all too easy to let things "get away" or to put them off when there's an unrelenting urgency to get things done. Rapid growth—or even slow growth—does not excuse the need to have effective controls in place. In fact, it's particularly important to have established procedures, protocols, and processes and to use them. Even though mistakes and inefficiencies can never be eliminated entirely, an entrepreneur should at least ensure that every effort is being made to achieve high levels of productivity and organizational effectiveness. For example, at Green Gear Cycling, cofounder Alan Scholz recognized the importance of controlling for growth. How? By following a "Customers for Life" strategy, which meant continually monitoring customer relationships and orienting organizational work decisions around their possible impacts on customers. Through this type of strategy, Green Gear hopes to keep customers for life. That's significant because they figured that, if they could keep a customer for life, the value would range from $10,000 to $25,000 per lifetime customer.[55]

Managing Downturns

Although organizational growth is a desirable and important goal for entrepreneurial ventures, what happens when things don't go as planned—when the growth strategies don't result in the intended outcomes and, in fact, result in a decline in performance? Significant challenges can come in managing the downturns.

Nobody likes to fail, especially entrepreneurs. However, when an entrepreneurial venture faces times of trouble, what can be done? How can downturns be managed successfully? The first step is recognizing that a crisis is brewing.

RECOGNIZING CRISIS SITUATIONS. An entrepreneur should be alert to the warning signs of a business in trouble. Some signals of potential performance decline include inadequate or negative cash flow, excess number of employees, unnecessary and cumbersome administrative procedures, fear of conflict and taking risks, tolerance of work incompetence, lack of a clear mission or goals, and ineffective or poor communication within the organization.[56]

Another perspective on recognizing performance declines revolves around what is known as the **"boiled frog" phenomenon** in which subtly declining situations are difficult to recognize.[57] The "boiled frog" is a classic psychological response experiment. In one case, a live frog that's dropped into a boiling pan of water reacts instantaneously and jumps out of the pan. But in the second case, a live frog that's dropped into a pan of mild water that is gradually heated to the boiling point fails to react and dies. A small firm may be particularly vulnerable to the boiled frog phenomenon because the entrepreneur may not recognize the "water heating up"—that is, the subtle decline of the situation. When changes in performance are gradual, a serious response may never be triggered or may be initiated too late to intervene effectively in the situation.

So what does the boiled frog phenomenon teach us? It teaches us that entrepreneurs need to be alert to signals that the venture's performance may be worsening. Don't wait until the water has reached the boiling point before you react.

DEALING WITH DOWNTURNS, DECLINES, AND CRISES. Although an entrepreneur hopes to never have to deal with organizational downturns, declines, or crises, a time may come when he or she must do just that. After all, nobody likes to think about things going bad or taking a turn for the worse. But that's exactly what the entrepreneur should do—think about it *before* it happens (remember feedforward control from Chapter 18).[58] It's important to have an up-to-date plan for covering crises. It's like mapping exit routes from

"boiled frog" phenomenon
A perspective on recognizing performance declines that suggests watching out for subtly declining situations

your home in case of a fire. An entrepreneur wants to be prepared before an emergency hits. This plan should focus on providing specific details for controlling the most fundamental and critical aspects of running the venture—cash flow, accounts receivable, costs, and debt. Beyond having a plan for controlling the venture's critical inflows and outflows, other actions would involve identifying specific strategies for cutting costs and restructuring the venture.

Exiting the Venture

Getting out of an entrepreneurial venture may seem to be a strange thing for entrepreneurs to do. However, the entrepreneur may decide at some point that it's time to move on. That decision may be based on the fact that the entrepreneur hopes to capitalize financially on the investment in the venture—called **harvesting**—or that the entrepreneur is facing serious organizational performance problems and wants to get out, or even on the entrepreneur's desire to focus on other pursuits (personal or business). The issues involved with exiting the venture include choosing a proper business valuation method and knowing what's involved in the process of selling a business.

BUSINESS VALUATION METHODS. Valuation techniques generally fall into three categories: (1) asset valuations, (2) earnings valuations, and (3) cash flow valuations.[59] Setting a value on a business can be a little tricky. In many cases, the entrepreneur has sacrificed much for the business and sees it as his or her "baby." Calculating the value of the baby based on objective standards such as cash flow or some multiple of net profits can sometimes be a shock. That's why it's important for an entrepreneur who wishes to exit the venture to get a comprehensive business valuation prepared by professionals.

OTHER IMPORTANT CONSIDERATIONS IN EXITING THE VENTURE. Although the hardest part of preparing to exit a venture is valuing it, other factors also should be considered.[60] These factors include being prepared, deciding who will sell the business, considering the tax implications, screening potential buyers, and deciding whether to tell employees before or after the sale. The process of exiting the entrepreneurial venture should be approached as carefully as the process of launching it. If the entrepreneur is selling the venture on a positive note, he or she wants to realize the value built up in the business. If the venture is being exited because of declining performance, the entrepreneur wants to maximize the potential return.

Managing Personal Life Choices and Challenges

Being an entrepreneur is extremely exciting and fulfilling, yet extremely demanding, often with long hours and high stress. Yet, being an entrepreneur can offer a variety of rewards, as well. In this section, we want to look at how entrepreneurs can make it work—that is, how can they be successful and effectively balance the demands of their work and personal lives?[61]

Entrepreneurs are a special group. They are focused, persistent, hardworking, and intelligent. Because they put so much of themselves into launching and growing their entrepreneurial ventures, many may neglect their personal lives. Entrepreneurs often have to make sacrifices to pursue their entrepreneurial dreams. However, they can make it work. They can balance their work and personal lives. But how?

One of the most important things an entrepreneur can do is *become a good time manager.* Prioritize what needs to be done. Use a planner (daily, weekly, monthly) to help schedule priorities. Some entrepreneurs don't like taking the time to plan or prioritize, or they think it's a ridiculous waste of time. Yet identifying the important duties and distinguishing them from those that aren't so important actually makes an entrepreneur more efficient and effective. In addition, part of being a good time manager is delegating those decisions and actions the entrepreneur doesn't have to be personally involved in to trusted employees. Although it may be hard to let go of some of the things they've always done, entrepreneurs who delegate effectively will see their personal productivity levels rise.

Another suggestion for finding that balance is to *seek professional advice* in those areas of business where it's needed. Although entrepreneurs may be reluctant to spend scarce cash, the time, energy, and potential problems saved in the long run are well worth the investment. Competent professional advisers can provide entrepreneurs with information to make more intelligent decisions. Also, it's important to *deal with conflicts* as they arise—both workplace and family conflicts. If an entrepreneur doesn't deal with conflicts, negative feelings are likely to crop up and lead to communication breakdowns. When communication falls apart, vital information may get lost, and people (employees *and* family members) may start to assume the worst. It can turn into a nightmare situation that feeds upon itself. The best strategy is to deal with conflicts as they come up. Talk, discuss, argue (if you must), but an entrepreneur shouldn't avoid the conflict or pretend it doesn't exist.

Another suggestion for achieving that balance between work and personal life is to *develop a network of trusted friends and peers.* Having a group of people to talk with is a good way for an entrepreneur to think through problems and issues. The support and encouragement offered by these people can be an invaluable source of strength for an entrepreneur.

Finally, *recognize when your stress levels are too high.* Entrepreneurs *are* achievers. They like to make things happen. They thrive on working hard. Yet, too much stress can lead to significant physical and emotional problems (as we discussed in Chapter 12). Entrepreneurs have to learn when stress is overwhelming them and to do something about it. After all, what's the point of growing and building a thriving entrepreneurial venture if you're not around to enjoy it?

REVIEW AND DISCUSSION QUESTIONS

1. What do you think would be the hardest thing about being an entrepreneur? What do you think would be the most fun thing?
2. How does the concept of social entrepreneurship (see Chapter 5) relate to entrepreneurs and entrepreneurial ventures?
3. Would a good manager be a good entrepreneur? Discuss.
4. Why do you think many entrepreneurs find it hard to step aside and let others manage their business?
5. Do you think a person can be taught to be an entrepreneur? Why or why not?
6. What do you think it means to be a successful entrepreneurial venture? How about a successful entrepreneur?

harvesting
Exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture

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Endnotes

Chapter 1

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Chapter 4

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Chapter 5

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Chapter 6

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Chapter 12

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Chapter 14

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Chapter 15

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Chapter 16

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Chapter 17

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Chapter 18

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Name Index

A

Aaker, D. A., 78n48
Abbott, R. K., 450n89
Abboud, L., 91n71
Ackerman, P. L., 448n69
Ackoff, R. L., 251n22
Acohido, B., 215n33, 500n36
Adam, E. E., Jr., 258n28
Adams, A. M., 193n32
Adams, J. S., 441, 441n46
Adams, M., 333n111
Aditya, R. N., 471n37, 475
Adler, N., 71n6, 361, 362n56
Adler, N. J., 78n44, 91, 362n53, 446n58
Adler, N. M., 301n59
Adom, A., 384n67
Aeppel, T., 517n7
Aggarwal, U., 378n37
Agle, B. R., 470n35
Agnew, N. M., 183n11
Aguinis, H., 330n87
Ahearne, M., 352n19
Ahlrichs, N. S., 481
Ahmed, H., 234n22
Ahrens, R. W., 58n44
Ahuja, G., 293
Aiken, M., 276n33
Akerson, A., 425
Akerson, D., 174
Alban, B. T., 156n12
Albergotti, R., 486n1
Albright, R., 482n71
Albright, T. L., 496n17
Aldag, R. J., 353n23
Alexander, E. R., 404n2
Ali, L., 387n79, 488n1
Ali, S., 330n90
Allard, J., 118n78
Allard, M. J., 119
Alldred, C., 418n44
Allen, D. G., 324n49
Allen, G., 70
Allen, J. T., 85n64
Allen, N. J., 298n41
Allen, T. D., 114n69
Allen, T. J., 448n71
Allers, K. L., 115n73, 238n36
Alleyne, S., 112n65
Allik, J., 82n63
Allman, V., 5n4
Almeida, P., 538n5
Alpern, P., 358n35
Alpert, M., 448n71
Altman, A., 324n52
Amabile, T. M., 166n49, 166n52, 167n56, 168n61, 197n34
Amar, A. D., 273n19
Ambady, N., 386n74
Ambrose, M. L., 432n8–9, 433n13, 435n19, 436n22–23, 438n38–39, 439n41, 441n46, 442n48, 442n52
Ambrose, M. O., 437n34
Amelia, W., 383n55
Anand, R., 99, 99n4
Anand, V., 132n40
Anders, G., 272n14
Anderson, B., 456
Anderson, J. C., 437n31
Anderson, N., 166n50
Anderson, S., 526n42
Andors, A., 509n60
Andrew, R., 528n49
Andrews, C. G., 359n46
Andrus, E., 390
Anger Elfenbein, H., 126n13
Angle, H., 377n32
Ansberry, C., 14n28, 46n7
Ante, S., 154n7, 165
Ante, S. E., 54n28, 304n61, 359n45, 455n96
Anthony, P., 160n21
Applebaum, A., 391n87
Appleby, J., 294n24, 332n107, 333n112, 359n42
Arango, T., 198n35
Arbel, T., 265n5
Archibald, D., 295, 295n29
Arend, R. J., 538n6
Argyres, N., 232n20
Ariño, M. A., 126n13
Armenakis, A. A., 158n17
Armour, S., 140n79, 315n20, 393n89, 394n92–93, 425n65, 448n69, 474n55, 500n32, 500n35, 502n48
Armstrong, J. S., 211n20
Arndt, M., 12n26, 166, 299n45, 518n8, 527n44, 528n53, 529n55, 540n16
Arnold, V., 132n40
Arnst, C., 380n47
Arthur, M. M., 332n99
Aryee, S., 313n5
Asch, S. E., 350–351, 351n12
Ash, M. K., 56, 471
Ashar, H., 60n50
Asher, J. J., 322n45
Ashford, S. J., 152n4
Ashforth, B. E., 132n40
Ashkanasy, N. M., 385n71, 386n73–74
Ashkenas, R., 270–271n11, 291n8
Aspara, J., 226n7
Aston, A., 518n8
Athos, A. G., 411n21
Atkinson, J. W., 434n14
Atlas, T., 213n28
Audi, T., 21n42, 215n34
Auer, K., 446n63
Aupperle, K., 126n13
Austin, J. T., 158n18
Avey, J. B., 384n66
Avolio, B. J., 470n28–30
Axtell, C. M., 440n42
Ayman, R., 466n15

B

Babcock, L., 533n61
Bacci, G., 368
Bacharach, S. B., 501
Bachmann, J. W., 234n21
Bachrach, D. G., 374n5, 376n25
Bacon, T. R., 455
Badaracco, J. L., Jr., 146
Baden-Fuller, C., 276n33
Baehr, M. E., 131n35
Baer, R., 232n19
Bahls, J. E., 330n81
Bahls, S. C., 330n81
Baik, K. B., 359n46
Bailey, J., 555n52, 558n60
Bailey, W., 133–134n45
Bailey, W. J., 134n49
Baker, S., 12n26
Bakke, D. W., 455
Bakker, A. B., 378n37
Baldoni, J., 425
Baldry, C., 12n25
Bales, R. F., 349n10
Balkundi, P., 363n63, 363n65
Ballard, L., 414n26
Ballmer, S., 289
Bamberger, I., 232n20
Banas, J. T., 158n17
Bandura, A., 436n28–30
Banga, A., 165, 469
Banker, R. D., 451n93
Banta, M., 30n3
Barbaro, M., 35n11, 190n23
Barber, T., 445n56
Barboza, D., 315n15
Barclay, C. A., 232n19
Barger, D., 44
Barger, P. B., 376n22
Bargerstock, A. S., 319n34
Barley, S. R., 448n71
Barling, J., 395n96, 476n66
Barna, G., 65
Barnard, C. I., 33, 36, 39, 268–269, 268n9
Barndt, S. E., 257n27
Barnes, B., 237n32
Barnett, J. H., 131n34
Barnett, M. L., 124n2, 126n13
Barnett, T., 133n44
Barney, J. B., 124n2, 232n17
Bar-On, R., 386n73
Barratt, C., 315n17
Barret, V. M., 450n87
Barrett, A., 435n21, 527n44, 545n34
Barrett, P. M., 147n96
Barrick, M. R., 382n49–50, 399, 470n30
Barrier, M., 551n38
Barry, B., 152n3
Bart, K., 135n55
Bartel, C. A., 442n49
Bartholomew, D., 520n21, 527n44
Bartkus, B. R., 126n15
Bartlett, C. A., 78n44, 235n25
Bartol, K. M., 169n65, 474n58
Bartolome, F., 145n95, 474n54
Bartone, P. T., 483n72

Bartunek, J. M., 141n88
Bartz, C., 166, 274–275
Baruch, Y., 340n2
Bass, B. M., 462n8, 470n26–29, 470n34
Bassi, L., 312n3, 496n17
Basu, K., 124n3
Basuil, D., 329n70
Bate, P., 160n21
Bateman, T. S., 376n25, 384n64, 470n32
Bates, S., 162n34
Batson, A., 47n10
Bauer, N., 317n26
Bauerlein, V., 72n9, 214n29, 519n16
Baum, H., 140
Baxter, K., 516n1
Bazerman, M. H., 184n14, 533n61
Beatty, R. W., 337
Beauchesne, E., 451n91
Becherer, R. C., 384n64
Becht, B., 78n43, 78n48
Becker, B., 313n5
Becker, B. E., 337
Becker, T., 386n75
Bedeian, A. G., 158n17, 193n32
Bednar, D. A., 35n10
Beizer, D., 409n15
Bell, A. H., 501, 501n44–45
Bell, A. M., 500n39
Bell, M.P., 100
Bellman, E., 70n1
Bello, M., 101n13, 109n46
Bendapudi, N., 410n20
Bendapudi, V., 410n20
Bender, R., 175n70
Benet, V., 384n67
Ben-Hador, B., 430n3, 430n5
Benko, C., 258n29
Benne, K. D., 349n10
Bennett, A., 82
Bennett, N., 352n17
Bennis, W. G., 198, 433n11, 464n13
Benson, H., 163n36
Bentler, P. M., 374n5
Beresford, L., 555n52
Berfield, S., 401n100, 535n62, 537n1
Bergmann, T. J., 319n34
Bergsman, S., 215n35
Bergstein, B., 541N22
Berkowitz, L., 352n20, 356n32, 441n46
Berlo, D. K., 406n7, 410n16
Berman, S. L., 50n19
Bernasek, A., 482n71, 498n28
Bernstein, E., 367n67
Berry, C. M., 13, 382n51
Berson, Y., 53n23
Berta, W., 185n19
Bettcher, K. E., 134n49, 137n61
Bettencourt, L. A., 58n47
Bezos, J., 208, 208n12, 352, 470, 540–541
Bhargava, S., 378n37
Bhaskaran, S., 82n62
Bhattacharya, A. K., 91
Bhattal, J., 93
Bianco, R., 225n6
Bies, R. J., 141n88
Bieser, M., 353n24
Biga, A., 114n69
Bilbrey, P., 4n1
Billings, J. R., 448n68
Bing, C. M., 359n46
Bing, J. W., 359n46
Binkley, C., 124n1
Birchfield, R., 470n36
Birkel, D., 270
Birkinshaw, J., 276n35, 291n8
Bischoff, S. J., 389n83
Bishop, J. W., 377n35
Bishop, R. C., 211n20
Bitner, M. J., 58n47, 420n55
Bittner, M. J., 376n23
Black, R. H., 353n24
Blackburn, R. S., 359n45
Blain, A., 393
Blair, C. A., 376n26
Blake, R. R., 463n11
Blanchard, D., 524n35, 536n63
Blanchard, K., 146, 466–467, 466n17
Bland, T. S., 330n81
Blasco, M., 85n68
Blau, G. J., 377n29–31
Blau, P. M., 275n31
Blaue, J., 98n1
Block, G. D., 330n81
Bloodgood, J. J., 374n5
Blooms, B. H., 376n23
Bluestein, G., 219n38
Blum, M. W., 533n61
Boal, K., 377n30–31
Boal, K. B., 471n37
Bobko, P., 327n65, 436n29
Bobocel, D. R., 184n12
Bodenheimer, G., 237
Boehle, S., 500n36
Boehne, D. M., 436n23
Boehnert, K., 6
Boiney, L. G., 349n9
Boje, D. M., 55n30
Boles, T., 358n37
Bolino, M. C., 374n5–6
Bommer, W. H., 377n28, 469n23, 470n29
Bonaccio, S., 382n49
Bond, M. H., 384n67, 475n62
Bond, R., 351n13, 361n50
Bonett, D. G., 376n21
Bono, 141
Bono, J. E., 375n16, 382n50, 461, 461n5, 470n29–30
Booms, B. H., 58n47, 420n55
Boone, G., 474
Borden, M., 244n42
Bordia, P., 414n26
Borgati, S. P., 292n21
Borgatti, S., 291n13
Born, J., 541–542
Bornstein, D., 141n85
Boschken, H. L., 275n30
Bosma, N., 538n10
Boswell, W. R., 161n26
Bosworth, A., 455
Bott, E., 500n35
Bottger, P., 353n25
Boudette, N. E., 44n2
Boudreau, J. W., 161n26, 319n32
Boulian, V., 377n33
Boultinghouse, O., 157
Boulton, W. R., 537n3
Bounds, G., 541n21
Bourk, J., 25
Bovee, C. L., 411, 420n58
Bowen, D., 85n69, 86
Bowen, D. E., 35n10, 313n5, 376n22, 476n69
Bower, L., 341n5
Bowers, C. A., 357n34
Bowler, W. M., 469n24
Bowley, G., 497n20
Bowman, E. H., 226n7
Boxall, P., 441n45
Boyd, B. K., 248n4
Boyle, M., 238n36, 274n25, 313n7, 341n5, 521n24, 533n60
Bradley, B. H., 470n30
Bradsher, K., 315n15
Bradspies, R. W., 494n12
Brady, D., 296n35, 409n15
Brainin, E., 323n46
Bramson, R. M., 342n8
Branden, N., 383n56
Brandenburger, A., 232n20
Brands, R., 58n43
Brannen, L., 250n16
Branson, R., 188
Brass, D. J., 383n60
Brat, I., 125n10
Braum, R., 108
Brazil, D. M., 469n24
Breaugh, J. A., 323n46
Brechu, M. B., 362n59
Breckler, S. J., 374n8
Breeden, R., 416n35
Bresser, R. K., 211n20
Brewer, C., 262, 272, 274, 279
Brews, P. J., 205n3, 211n21, 213n27, 226n7
Bridges, W., 438n37
Bridges, W. R., 250n13
Brief, A. P., 415n32, 438n36
Briggs-Myers, I., 381, 381n48
Brim, B., 305n62, 450n86
Brin, S., 289
Briner, R. B., 185n18
Brislin, R. W., 447n66
Britton, C., 214n30–31
Broberg, B. J., 330n87
Brockner, J., 373n4, 383n56, 442n49, 474n55
Brockwood, K. J., 332n98
Brodbeck, F. C., 82n63, 475
Bromiley, P., 184n12
Bronstein, H., 289n4
Brooke, P. P., Jr., 374n9
Brooks, S. M., 15n33, 58n47, 420n56, 504n55
Broschak, J. P., 449n72
Brouer, R. L., 22n43
Brough, P., 332n96
Brousseau, K. R., 186n21
Brower, H. H., 474n53
Brown, D. A., 496n17
Brown, D. W., 341n5
Brown, J., 158n17
Brown, J. L., 183n11
Brown, M. P., 326n63
Brown, R., 510n61
Brown, S., 456n97
Brown, S. P., 376n22
Brown, T., 165n46, 173
Brown, T. J., 15n33
Brown, W. S., 510
Browne, A., 80n52, 80n55
Bruce, R. A., 168n61
Bruch, H., 470n34
Brummel, L., 317
Brustein, J., 248n1, 314n14
Bruzina, B., 498n27
Bruzzese, A., 342n11, 414n26
Bryan, L. L., 275n30

Bryant, A., 106n39
Bryant, J. D., 471
Brynjolfsson, E., 165n47
Bryson York, E., 426n66
Buchanan, L., 23n45
Buchholz, R. A., 125n9
Buck, T., 505n56
Buckingham, M., 23, 510
Buckley, F., 154n7
Buckley, G., 482
Buckman, R., 410n17
Budde, O., 147
Buhler, P. M., 329n75
Bulkeley, W. M., 111
Bunderson, J. S., 349n7
Bunker, B. B., 156n12
Bunkley, N., 125n7
Burack, E. H., 60n50, 63n57, 248n4
Burgess, C. M., 496n17
Burgin, D., 178
Burke, K., 324n52
Burke, L. A., 184, 184n14
Burke, W. W., 157n14–15
Burnham, D. H., 434n16
Burns, G., 356n31
Burns, T., 274n26
Burns, U., 230, 230n13
Burris, E. R., 418n50
Burritt, C., 521n24, 533n60
Burrows, P., 301n57, 537n2
Burton, S., 320n39
Bush, J., 80n53
Bush, M., 44n1
Bushe, G. R., 348n6
Bustillo, M., 66n59, 78n45, 148n97
Butler, J. K., Jr., 145n95, 474n54
Butler, T., 349n7
Butterfield, D. A., 106n38
Butts, M. M., 313, 313n5, 441n45
Buxton, B., 169n66
Byham, W. C., 472n45
Byrne, J. A., 45n5, 78n48, 138n67, 289n4, 474n55
Byrnes, N., 230n13, 319n31, 368n68
Byron, K., 418n47

C

Cable, D. M., 132n40, 135n54, 385n71
Cable, J., 58n45, 168n61, 273n21, 316n24
Cadsby, C. B., 450n89
Cain, D., 284
Caldwell, D. F., 52n22
Calhoun, J., 291n13
Callister, R. R., 395n96
Calori, R., 235n26
Camerer, C. F., 184n12
Cameron, D., 314n14
Cameron, K. S., 65
Caminiti, S., 98n3, 471n41
Camp, S. J., 551n37
Campbell, A., 212n23
Campbell, D. J., 5n9
Campion, M. A., 348n6, 349n7, 438n36, 438n38
Camps, J., 441n45
Cañas, K. A., 113n67
Canela, M. A., 126n13
Capell, K., 511n62
Capon, N., 205n3, 226n7
Cappel, S., 234n21
Cappelli, P., 471n40
Carberry, E. J., 31n6
Cardinal, L. B., 205n3, 226n7
Cardona, P., 374n5
Cardwell, S., 48n12
Cardy, R. L., 132n38
Carey, A., 34n8
Carey, A. R., 77n42, 273n24, 418n50, 449n77, 500n37
Carey, J., 527n44
Carey, S., 251n24
Carey, W., 545
Carl, D. E., 475n63, 476n64
Carland, J. C., 537n3
Carland, J. W., 537n3
Carlin, G., 50
Carlsson, P., 192–192
Carman, R., 359n43
Carmeli, A., 226n7, 312n3, 313n5, 430n3, 430n5
Carpenter, J., 449n75
Carrell, M. R., 441n47
Carroll, A. B., 124n2, 126n13, 134n49
Carroll, S. J., 12n22
Carsten, J. M., 376n20
Carsten, M. K., 349n9, 357n33
Carter, B., 198n35
Carter, N. M., 98n2, 106n36
Carter, R., 472
Cartwright, D., 463n10, 472n48
Cartwright, S., 163n36
Carvey, D. W., 257n27
Casale, J., 500n37
Casciaro, T., 363n64
Cascio, W. F., 291n10, 329n70
Case, J., 449n75
Cash, K. C., 60n50
Caslione, J. A., 306
Casselman, B., 510n61
Cassidy, W. B., 204n1
Castellan, N. J., Jr., 353n24
Castle, S., 73n16
Castro, S. L., 469n22
Cataldo, C. G., 295n27
Caudron, S., 197n34, 259n33, 260n34, 281n42, 341n6, 438n37, 450n85, 470n36, 558n61
Caulfield, B., 494n14
Cavanaugh, M. A., 161n26
Cendrowski, S., 380n46
Ceniceros, R., 329n71
Cernuto, K., 59
Cervone, D., 436n30
Chambers, J., 14–15
Chan, K. Y., 476n67
Chandler, A., 275
Chandler, A. D., Jr., 275n29
Chandler, G. N., 552n40
Chandon, W. J., 152n3
Chang, A., 70n1
Chang, K., 152n1
Chang, L., 327n65
Chang, R. S., 404n3
Chang, S., 362n58
Chan Kim, W., 275n30
Chapple, A., 236
Chatman, J. A., 52n22
Chaudhary, N., 70
Chemers, M. M., 466n15
Chen, A. N. K., 292n21
Chen, Z., 469n25
Chenault, K., 112, 112n65
Cherng, A., 12
Cherng, P., 12
Cherniss, C., 386n74
Cherry, B., 15n33, 58n47, 419n53
Chesbrough, H. W., 291n10, 296
Chhokar, J. S., 82n63
Child, J., 272n17, 291n8
Childre, D., 163n36
Cho, H. J., 226n7
Choi, J., 234n22
Chouinard, Y., 128
Chowdhury, S. D., 557n57
Chozick, A., 198n35
Christensen, C. M., 169n66
Christian, M. C., 378n37
Chu, P. C., 193n28
Chuanfu, W., 225
Chuang, C. H., 313, 313n5
Chugh, D., 184n14
Church, A. H., 380n44
Cianni, M., 358n38
Cidambi, R., 377n30
Clampitt, P. G., 404n2, 406n9, 408, 425
Clark, D., 516n2
Clark, J., 178n1
Clark, K. D., 292n21, 312n3
Clark, M., 59
Clark, N., 76n34, 98n1, 199n36
Clark, T., 75
Clarke, B., 425
Clarke, L. D., 446n62
Clenfield, J., 314n9
Clifford, S., 206n7, 426n66
Clinton, B., 369
Cobbs, C., 301n58
Cober, A. B., 158n17
Cocchiara, F. K., 100
Cochran, P. L., 125n6, 126n13, 132n42
Cohen, A., 284n44, 542n25
Cohen, D. J., 320n40
Cohen, D. S., 173
Cohen, J., 154n9
Cohen, S. G., 357n34, 359n40
Colbert, A. E., 470n30
Colchester, M., 91n71, 175n70
Cole, D., 171n67
Cole, W., 184n13
Colella, G., 495
Coleman, F., 91n71
Colgan, F., 109n51
Collier, B. D., 138n66
Collingwood, H., 259n32
Collingwood, M. P., 436n23
Collins, C. G., 384n64
Collins, C. J., 292n21, 312n3
Collins, J. C., 41, 54n25, 244, 554n48
Collins, J. M., 501
Colquitt, J. A., 442n49, 470n30
Colton, C. L., 332n98
Colvin, G., 55n31, 152n4, 230n13, 259n33, 333n112, 472n47, 482n71
Colvin, J., 112n65
Comer, D. R., 352n17
Conaty, B., 329n70
Condemi, B., 60n50
Conger, J. A., 470n32–34, 470n36, 476n68
Conley, J., 60n50
Conlin, M., 61n52–53, 161n28, 297n36, 297n38, 317n25, 332n109, 398n97, 418n48, 456n97, 500n37
Connally, K., 224
Connelly, B. L., 5n6
Connelly, C. E., 449n72
Connelly, C. L., 301n55
Connerley, M. L., 100

Conrad, L., 67
Conte, J. M., 386n75
Conti, R., 168n61
Contractor, N. S., 167n54
Conway, N., 377n35
Cooke, R. A., 276n34
Coolidge, C., 66n59
Coon, H., 168n61
Coons, A. E., 463n9
Cooper, A., 245
Cooper, C. D., 474n55
Cooper, C. L., 161n28, 163n36, 324n49, 329n76, 380n44
Cooper, E. A., 442n48
Cooper, M., 312n1
Cooper, R., 342n8
Cooperman, S., 436n20
Copeland, M. V., 63n56, 424n64
Copper, C., 352n19–20
Corkindale, G., 199n36
Corner, P. D., 61n55
Cornwell, L., 332n103–104
Cortina, L. M., 111
Costa, P. T., Jr., 384n67
Costley, D. L., 470n34
Costonis, M. A., 318n29
Cotton, J. L., 438n39
Coulter, A., 410
Coup, T., 178
Coutou, D., 348n4, 359n47
Covas, M., 251n19
Covey, S. M. R., 481
Coviello, A., 541
Cox, J., 308n64
Cox, S., 319
Coy, P., 297n36
Coyle-Shapiro, J. A-M., 377n35
Cozzens, M. D., 167n54
Crabtree, S., 445n56
Crain, D. W., 44n1
Crant, J. M., 384n64, 470n32
Crawford, D., 486n1
Crawford, J., 54n24
Creech, R. M., 432n9, 433n13
Creegan, C., 109n51
Creswell, J., 206n7
Crick, J., 193n29
Crites, S. L., Jr., 374n8
Crittenden, W. F., 134n49
Croak, R., 277
Crockett, R. O., 230n13
Cropanzano, R., 355n30, 377n35, 385n72
Cross, R., 292n21
Crossen, C., 379n40
Cryer, B., 163n36
Csanda, C. M., 295n30
Culp, K. E., 356n31, 449n74
Cummings, A., 166n52, 440n43
Cummings, L. L., 45n5, 160n23, 168n61, 275n30, 348n6, 353n25, 385n72, 436n23, 438n36
Cummings, T. G., 156n12
Cunningham, C. E., 158n17
Cushing, K., 178n1
Cuyler, G., 425n65
Czaplewski, A., 61n55

D

Daft, R. L., 265n4, 295n25
Dahl, J. S., 436n23
Dahle, C., 141n87
Dahlin, K. B., 362n55
Dailey, R. C., 442n49
Dalal, R. S., 382n49
Dalgaard, L., 417–418
Dalton, A., 488n7
Dalton, M., 76n34
Daly, J. P., 474n55
Damanpour, F., 166n52
D'Ambrosio, R., 340–341
D'Amelio, A., 158n17
D'Amico, C., 337
Dane, E., 184n14
Daniels, C., 161n26, 163n36
Darley, J. M., 377n34, 389n84
Das, D., 47n9
Dash, E., 147n96
Datta, D. K., 329n70
Datta, S., 378n37
Daus, C. S., 385n71
David, F., 227
David, F. R., 136n59, 137
David, G., 135
Davidow, W. H., 291n10
Davidson, P., 48n15, 161n24–25
Davidson, S., 305n62
Davidson, W. H., 249n11
Davidson Frame, J., 258n29
Davies, M., 386n73, 386n75
Davis, B., 79n49
Davis, C., 249n6
Davis, H. J., 447n65
Davis, J. H., 473n50
Davis, K., 126n12, 130n30
Davis, P. S., 232n20
Davis, R., 294n24, 359n42
Davis, W. D., 313
Davis-Blake, A., 449n72
Dawson, C. S., 173
Day, C., 504
Day, D. V., 383n58, 383n60, 469n25, 476n66
Deadrick, D. L., 330n81
Deal, T. E., 65
Dean, J., 80n52, 80n55, 537n1
Dean, J. W., Jr., 35n10, 225n3
Dean, K. L., 61n52
DeBeer, M., 219
Dechant, K., 100, 130n29
DeDreu, C., 351n14
DeDreu, C. K. W., 354–355n28, 354n27
Dees, J. G., 141n84
Defeo, R., 273
De Gilder, D., 430n5
DeGreene, K. B., 36n12
Dehler, G. E., 258n29
DeHoogh, A. H. B., 470n34
DeJoy, D. M., 441n45
DeKoning, G. M. J., 496n17
Delahoussaye, M., 476n65
Delaney, J. T., 313n5
Delaney, K. J., 142n92, 455n96
Delbecq, A. L., 353n25
Delbridge, R., 414n26
Delery, J. E., 326n63
Delgado, J., 393
Dell, M., 471
Delmar, F., 205n3
DeLong, D. W., 12n25
DeLong, T. J., 114
DeLuque, M. S., 157n14
Demarie, S. M., 35n10
De Mente, B. L., 162n35
DeMeuse, K. P., 358n36
Deming, W. E., 35, 518, 518n13
Denend, L., 250n13
Den Hartog, D. N., 470n34
DeNisi, A. S., 100, 323n46
Denison, D. R., 52n21, 54n25, 289n4
Denning, S., 55n30, 55n33
Denton, E. A., 60n50
Denyer, D., 185n18
DePree, M., 481, 554, 554n47
DeRue, D. S., 476n66
Deshpande, R., 134n49, 137n61
Desivilya, H. S., 355n29
Dess, G. G., 232n20, 237n33, 291n7, 291n10
Detert, J. R., 418n50
Deutschman, A., 51n20, 158n17, 352n15
Devine, P. G., 378n39
DeVito, J. A., 411n21
DeYoung, C. G., 382n49
Diamant, E., 542
Diamant, M., 542
Dickinson, A. M., 450n89
Dickson, W. J., 34n7
Diebel, J. C., 543
Diefendorff, J. M., 385n71
Dienesch, R. M., 469n22
Dierdorff, E. C., 10n17, 13, 377n28
Dietz, J., 15n33, 58n47, 420n56, 504n55
DiFonzo, N., 414n26
Digman, J. M., 382n49
Di Martino, V., 329n76
DiMeglio, F., 324n50
Dimitrius, J-E., 425
Dineen, B. R., 474n53
Dion, D. L., 352n19
Dirks, K. T., 474n53–55
DiTomaso, N., 54n25
Dittrich, J. E., 441n47
Dixon, G. R., 472n45
Dixon, T., 404n2
Dobson, D., 167n55
Dobson, P., 446n63
Dodd, R., 128, 128n26
Dodes, R., 66n59, 453n95
Dodge, G. E., 471n37
Doebele, J., 238n37
Doh, J., 60n50
Dola, M., 307n63
Dolezalek, H., 419n52
Donaldson, T., 50n17
Donkin, R., 306
Donnellon, A., 12n25
Donohue, P., 324n52
Donovan, J. J., 382n49–50
Dorfman, P. W., 82n63, 157n14, 470n34, 475n63, 476n69
Dorsey, J., 404
Dosh, C., 511n62
Dougherty, C., 312n1
Dougherty, D., 15n32, 274n27
Douglas, C., 22n43
Douglas, S. P., 71n7
Douma, B., 132n36
Douzet, A., 322n44
Doz, Y. L., 236
Dragoni, L., 152n3
Drasgow, F., 476n67
Dreilinger, C., 138n67
Drew, C., 76n34
Drickhamer, D., 268n7, 449n75, 450n80, 519n17, 522n27, 528n50

Driver, M. J., 186n21
Droege, S. B., 237n33
Drucker, P., 210n18, 541, 541n20
Drucker, P. F., 23, 78n46, 160n21, 219, 510
Druskat, V. U., 349n8
Duchon, D., 469n24
Dugan, L. J., 161n25
Dugas, C., 537n1
Dugdale, D., 253n25
Dullweber, A., 283n43
Dumaine, B., 193n29, 289n4
Dumas, T. L., 332n100
Duncan, W. J., 193n32
Dunfee, T. W., 134n49
Dunham, K. J., 450n84
Dunham, R. B., 377n32
Dunlap, S., 305n62
Dunnette, M. D., 11n19, 355n29, 356, 375n18
Durand, R., 251n18
Durfee, D., 296n35
Dutton, J. E., 152n4
Dvir, T., 53n23, 470n30
Dvorak, P., 78n47, 273n24, 364n66
Dybwad, B., 339n115
Dyer, J. H., 169n66

E

Earley, P. C., 356n32, 359n46, 362n52
Eaton, L., 110n59
Ebert, R. J., 258n28
Ebron, A., 342n9, 449n77
Eckberg, J., 418n45
Economy, P., 141n84
Eddleston, K. A., 15n32–33, 58n47, 500n42
Eden, D., 470n30
Eden, E., 357n34
Eder, P., 377n35
Edgington, T. M., 292n21
Edmondson, A. C., 292n20–21
Edmonson, R. G., 204n1
Edwards, C., 54n27, 301n58, 308n64
Edwards, J. R., 132n40, 135n54
Egan, M., 72n9
Egan, T. M., 166n52
Eggenhofer-Rehart, P. M., 292n21
Ehrens, D. R. M., 330n81
Ehrhart, M. G., 15n33, 58n47
Ehrlich, S. B., 45n5
Eid, J., 483n72
Einhorn, B., 72n9, 166, 319n33, 372n1, 400n99
Eisenberg, A., 542n29
Eisenberger, R., 377n35
Eisenhardt, K. M., 275n30
Ekvall, G., 58
Elfenbein, H. A., 386n74
Elias, M., 312n1, 331n92
Elikai, F., 250n14
Elikai, P., 251n19
Elkenov, D. S., 248n4
Elkind, P., 146
Ellemers, N., 332n96, 430n5
Ellinor, R., 204n1
Elliott, A. J., 378n39
Elliott, J. R., 540, 541
Elliott, L., 529n56
Elliott, M., 475n60
Elliott, S., 291n11
Ellis, K., 496n17
Ellison, S., 238n38
Elms, H., 350n11
El Nasser, H., 102, 102n18, 107n41
Elsbach, K. D., 415n32
Emerman, J., 122, 126, 130, 132, 137, 142
Emerson, J., 141n84
Emery, F. E., 276n35
Engardio, P., 292n18
England, G. W., 322n45
Ensher, E. A., 157n14–15
Ephron, D., 196n33
Epitropaki, O., 470n30
Epstein, K., 497n22
Epstein, T., 492
Erez, A., 350n11, 373n4, 376n25–26
Erickson, P. B., 425n65
Erickson, T. J., 13n27, 328n68
Erlanger, S., 73n16
Erlbaum, L., 469n24
Ernest, M., 82
Ernst, H., 359n45
Espinoza, J., 98n1, 499n30
Esterl, M., 239n39
Esty, D. C., 127n25
Ettore, B., 249n7
Eulinger, T., 176, 183, 184, 190, 194
Evans, C. R., 352n19
Evans, W. R., 313
Ewing, J., 291n11, 420n57

F

Fabish, L., 132n41
Fabrigar, L. R., 374n8
Fadiman, J., 432
Fagenson-Eland, E., 157n14–15
Fahey, L., 259n33
Fahmy, D., 542n28
Fahr, J., 376n27
Fairclough, G., 72n9, 214n29
Faivre d'Arcier, C., 545n34
Falletta, S. V., 379n41
Fanning, J., 253n25
Farh, J-L., 169n66, 436n28
Farias, G., 156n12
Farley, J. E., 320n40
Farley, J. U., 205n3, 226n7
Farrell, C., 331n94, 557n58
Farrell, G., 139n69
Farzad, R., 212n22, 283n43
Fassina, N. A., 376n27
Fastow, A., 504–505
Fayol, H., 9, 9n14, 29, 31, 31n5, 39, 264, 272n15
Fazzari, A. J., 358
Feder, B. J., 135n53
Feldman, A., 341n7
Feldman Barrett, L., 185n17
Fenwick, B., 264n2
Ferguson, J., 60n50, 61n55
Fernandes, N., 63n57, 248n4
Fernandez, C. F., 467n18
Fernandez-Araoz, C., 322n45
Ferrell, O. C., 15n33, 58n47
Ferrin, D. L., 474n53–54
Ferris, G. R., 22n43, 305n62, 469n22
Festinger, L., 379n40
Fiedler, F., 464–466, 464n14, 466n15
Filipczak, B., 55n29
Fine, C. H., 291n14
Fink, C. F., 352n16, 353n25
Fink, L. S., 320n40
Finkelstein, S., 45n5, 160n23, 534
Fiora, B., 259n33
Fiorina, C., 183
Fishel, B., 379n41
Fisher, A., 217n36, 321n42, 330n80, 425n65
Fisher, A. B., 250n14, 329n73
Fisher, B. M., 463n9
Fisher, C. D., 163n36
Fishman, C., 264n2
Fiske, S. T., 389n84
Fitch, K., 332n104
Fitzgerald, M., 358n37
Fitzgerald, T. H., 160n21
Fitzpatrick, W. M., 214n30
Flamholtz, E., 486n4
Flandez, R., 430n1, 450n86
Flannery, M., 141
Fleenor, D. G., 12n23
Fleming, J. E., 136n57
Fletcher, C., 12n25
Florent-Treacy, E., 71n7
Fluhr, J., 551
Fodor, E. M., 470n34
Foege, A., 159n19
Fogle, E. E., 384n67
Foley, P., 379n41, 380n43
Folkman, J., 481
Follett, M. P., 32–33, 39
Fondas, N., 471n44, 472n46
Fong, E., 350n11
Forbes, D. P., 541n19
Ford, B., 307
Ford, E. W., 193n32
Ford, H., 27
Ford, J. D., 158n17
Ford, L. W., 158n17
Ford, R. C., 419–420n54, 474n58
Forelle, C., 73n14, 74n18
Forero, J., 74n23
Forman, J., 55n30
FormyDuval, D. L., 384n67
Fornaciari, C. J., 61n52
Foroohar, R., 98n1
Fort, T. L., 141n88
Fortt, J., 292n15, 424n64
Foss, D. J., 377n34, 389n84
Foster, T., 127n24
Fottler, M. D., 474n58
Fountain, H., 510n61
Fowler, G. A., 430n2, 486n1
Fox, A., 288n1
Fox, J., 333n110, 333n112
Fox, N., 494
Frager, R. D., 432
Fralicx, R., 379n41, 380n43
Francesco, A. M., 85n67
Franke, R. H., 34n8
Frankel, B., 115n76, 330n90, 393n89
Frary, M., 511n62
Fraser, J. A., 250n14
Fraser, R., 253n25
Frauenheim, E., 5n4, 300n49, 300n54, 301n58, 383n62, 418n49, 449n77
Frederick, E., 436n29
Frederick, W. C., 126n12, 130n30, 131n34
Fredman, C., 58n42, 518n11
Freeman, E. B., 205n3
Freeman, R. E., 50n17, 50n19, 128, 128n26
French, J. R. P., Jr., 472n48
Frese, M., 475
Fried, Y., 436n23
Friedman, A., 441n47
Friedman, H., 379n41, 380n43

Friedman, M., 124, 124n4, 384n63
Friedman, T., 283
Friedman, T. L., 91
Friesl, M., 292n21
Frijda, N. H., 385n70
Frink, D. D., 22n43
Frost, D. E., 472n48
Fry, A., 55
Fuchs, M., 173n69
Fuchsberg, G., 251n24, 551n38
Fuentes, M., 488
Fuhrmans, V., 498n24
Fuld, L. M., 63n57, 248n4, 249n5
Fuld, R., 147–148
Fulk, J., 248n4
Fuller, L., 219
Fuller, M., 219
Fuller, S. R., 353n23
Furst, S. A., 359n45
Futrell, D., 358n36
Futterman, M., 189n22, 237n32, 486n1

G

Gabarro, J. J., 114, 411n21
Gabor, A., 35n10
Gabriel, Y., 330n87
Gaertner, S., 376n19
Gaffney, J., 238n35
Gaga, L., 244–245, 244n41
Gale, S. F., 295, 295n26
Gallagher, D. G., 301n55, 449n72
Galloni, A., 74n17
Galunic, D. C., 275n30
Gamble, J. E., 225n4
Gantt, H., 253
Ganzach, Y., 323n46
Garber, J. R., 259n33
Garber, K., 127n24
Garcia-Castro, R., 126n13
Gardner, W. L., 11n19, 381n48
Garg, V. K., 248n4
Garman, A. R., 296
Garvin, D. A., 178n3, 292n21
Gary, L., 58n46
Garza, F., 208, 209
Gaskill, M., 342n8
Gaspin, J., 199
Gass, M., 168
Gates, B., 248, 552
Gauthier-Villars, D., 91n71, 346n1
Gavin, M., 385n71
Gavin, M. B., 474n53
Gavin, T. A., 138n65
Gawande, A., 219
Gebert, D., 100
Gebhardt, J., 291n8
Geisinger, K. F., 320n40
Gelade, G. A., 446n63
Gelb, E., 297
Gelfand, M., 533n61
Gellatly, I. R., 437n31
Geller, E. S., 436n25
Gelles, K., 5n7, 110n58, 273n24, 349n9
Gentile, M. C., 132n40
George, C. S., Jr., 28n1
George, J. M., 168n61
George, N., 76n32
George-Falvey, J., 436n25
Gerdes, L., 339n115
Gerhardt, M. W., 461, 461n5
Gerhart, B., 313n5
Gerlin, A., 217n36
Germanotta, S., 244
Gerstner, C. R., 469n25
Gerstner, L., 160
Gerstner, L. V., 160n22
Gerwin, D., 276n34
Ghiselli, E. E., 322n45
Ghobadian, A., 205n3
Ghosh, R., 395n96
Ghoshal, S., 78n44, 235n25
Ghosn, C., 72, 498
Ghumman, S., 109n47
Giacalone, R., 500n41
Giacalone, R. A., 59n48, 61n55
Giacobbe-Miller, J. K., 446n61
Gibbs, L., 283n43
Gibbs, N., 106n33
Gibbs Marullo, G., 558n60
Gibson, C. B., 359n45–46
Gibson, D. E., 395n96
Gibson, E., 426n66
Gigerenzer, G., 198
Gilad, B., 249n5
Gilberg, P., 379n41, 380n43
Gilbreth, F., 29, 30, 30n4, 39
Gilbreth, L., 29, 30, 30n4, 39
Gilgoff, D., 101n15
Gillen, D. A., 12n22
Gillette, K. L., 450n89
Gilley, A., 363n60
Gilley, J. W., 363n60
Gilson, L. L., 359n45
Gilson, R. L., 374n9
Gimbel, B., 519n16
Gino, F., 292n21
Ginter, P. M., 193n32
Girard, K., 249n5
Gist, M. E., 436n28–29
Giullian, M. A., 251n19
Glader, P., 270–271n11
Gladwell, M., 7, 7n12, 41, 173
Glass, H. E., 234n21
Glater, J. D., 326n61
Glazer, F., 4n1
Glick, W. H., 276n33
Godsey, K. D., 551n38
Goff, J., 250n15
Goffee, R., 54n25
Gogoi, P., 251n24, 552n42
Gokhale, K., 319n33, 372n1, 400n99
Gokhale, S., 222, 226, 228, 235, 239
Gold, R., 510n61
Golden, T. D., 130n29, 448n70
Goldhar, J. D., 291n14
Goldman, B. M., 469n23
Goldman, D., 89n70
Goldsby, J. G., 377n35
Goleman, D., 386n73, 399
Gomes, L., 85n64
Gomez, C., 474n58
Gomez-Mejia, L. R., 326n63
Gong, J., 169n66
Gong, Y., 436n28
Gonzalez, A., 297n36, 324n50, 418n50, 449n77
Gonzalez, J. A., 100
Gooding, R. Z., 275n31
Goodman, P. S., 158n17, 348n6, 441n47, 442n48
Goodnight, J., 436, 470
Goodwin, V. L., 436n27, 469n24
Gooty, J., 385n71
Gordon, E. E., 48n13
Gordon, G. G., 54n25
Gordon, J., 359n45
Gordon, J. R., 319n35
Gordon-Hart, G., 251n22
Gore, B., 51, 54
Gorkin, M., 502n52–53, 503
Gosling, J., 10n18
Goudreau, J., 163n38
Govindasamy, S., 380n46
Graeff, C. L., 467n18
Graen, G., 469n23
Graen, G. B., 469n22
Graf, H., 483
Graham, A., 168n59
Graham, J. W., 130n32
Graham, K., 496n17
Grandey, A. A., 376n22
Granlund, M., 496n17
Grant, A. M., 438n36, 440n44
Grant, D., 60n50
Grant, E. A., 324n50
Grant, R. M., 205n3, 232n19
Graves, E. G., Jr., 230n13
Graves, M., 471n38
Graves, S. B., 126n13
Gray, C. E., 258n29
Gray, D., 159
Gray, G. R., 60n50
Greco, S., 543n31
Green, H., 418n43, 418n49
Green, J., 65n58
Green, S. G., 258n29, 469n24
Greenbard, S., 214n31
Greenberg, J., 118n78, 441n47, 500n41, 501, 500n43, 501n45, 553
Greenberg, S. H., 98n1
Greene, C. N., 382n54
Greene, J., 317n25
Greene, L., 4–5, 6, 10
Greengard, S., 251n22
Greenhaus, J. H., 332n96
Greenhouse, S., 299n46, 300n50, 315n19, 500n38
Greenwald, J., 321n43
Gregersen, H. B., 169n66
Greguras, G. J., 385n71
Greiner, L. E., 156n12
Greve, H. R., 296n35
Griffeth, W., 320n40
Griffin, J., 502n46
Griffin, R. W., 166n50, 374n7, 438n36, 438n39, 501
Griffith, J., 376n22
Griffith, R. W., 376n19
Grimsley, G., 322n45
Grizzle, J. W., 15n33
Grose, T. K., 72n8
Gross, D., 220n39
Grossman, L., 416n36
Gross-Schaefer, A., 60n50
Groth, M., 15n33, 58n47, 419n53
Grove, A., 432
Grover, R., 543n32
Groves, K. S., 190n24, 470n34
Grow, B., 497n22
Grübel, O., 135
Guber, P., 55n30
Guernsey, L., 500n34
Guetzkow, H., 351n12
Guion, R. M., 375n18

Gull, G. A., 60n50
Gundersen, A., 446n58
Gunn, E. P., 270n10
Gunther, M., 44n1
Guo, J., 76n30
Gupta, N. P., 326n63, 327n65–66
Gupta, V., 82n63
Gustafson, K., 324n48
Gustafson, L. T., 35n10
Gutek, B. A., 15n33, 58n47, 419n53
Guth, R. A., 296n32
Guthrie, J. P., 329n70
Guyon, J., 85n64–65, 134n49
Gwinner, K. P., 58n47

H

Hachiya, D., 376n20
Hackett, R. D., 375n18
Hackman, J. R., 35n10, 348n4, 348n6, 356n32, 359n47, 438n39–41, 439, 440
Haddad, C., 164n42, 449n73
Hadley, C. N., 166n52, 167n56
Hafner, K., 142n92, 417n40, 455n96
Hage, J., 276n33
Hagenbaugh, B., 486n2
Hagevik, S., 341n6
Haggerman, L., 410n19
Haight, D., 406
Haines, S., 36n12
Haines, T., 208
Hajim, C., 545n34
Hales, C. P., 10n15
Hall, B., 325n56
Hall, D. T., 377n29, 432n9
Hall, K., 196n33
Hall, W., Jr., 250n14, 251n19
Halvorsen, F., 219
Hambrick, D. C., 45n5, 160n23
Hamby, A., 161
Hamel, G., 23, 41, 154n7, 228n12, 244, 250n14, 283, 306
Hamm, S., 81n59, 372n1, 400n99
Hammer, L. B., 332n98, 332n100
Hammer, M., 291n8, 519n15
Hammond, J. S., 193n31, 198
Hammonds, K. H., 141n87, 193n32, 213n28, 438n37
Hanges, P. J., 82n63, 475n63
Hannah, D., 342n10–11
Hannon, D., 547
Hansen, F., 314n13, 318–319n30, 331n95, 339n115
Hansen, J. D., 501, 501n45
Hansen, M. T., 293, 301n57
Haque, A., 384n67
Hardman, W., 329n77
Hardy, Q., 7n11, 289n3, 455n96
Hare, A. P., 353n25
Hare, B., 198n35
Hargreaves, S., 220n39
Harkins, S. G., 352n18, 436n25
Harpaz, I., 447n64, 448n68
Harper, E., 63n57, 248n4
Harris, J. G., 12n25
Harris, K. J., 22n43
Harris, P., 368n69
Harris, P. R., 71n7
Harris, R. B., 22n43
Harrison, D. A., 363n63, 363n65, 377n30, 380n45, 418n50
Harrison, J. S., 50n18, 50n19
Hart, S. L., 289n4
Hartel, C. E. J., 385n71, 386n73
Härtel, C. E. J., 386n74
Harter, J. K., 23, 375n17, 376n22
Harter, L. M., 374n9
Hartke, D. D., 466n15
Hartline, M. D., 15n33, 58n47
Hartmann, H., 106n34
Harvey, C., 118n78, 119
Hasek, G., 528n52
Haslam, S. A., 430n5
Haspeslagh, P., 230n14
Hatch, M. J., 52n21
Hater, J. J., 470n29
Hatfield, J. D., 126n13
Hatsukano, K., 107
Hattori, R. A., 16n35
Hausman, C., 63n56, 130n28, 134n47, 242n39, 281n41, 304n61, 315n18, 479n70
Havilland, J. M., 385n70
Hawkins, D., 500n34
Hawkins, M., 58n45, 168n61
Hayes, T. L., 375n17, 376n22
He, W., 103n27, 104, 104n29
Healy, M., 162n32
Heaney, C. A., 163n36
Heath, C., 173, 183n11, 324n53, 325n57, 486n5, 490n9
Heath, D., 173, 183n11, 324n53, 325n57, 486n5, 490n9
Heaton, C. P., 419–420n54
Heavey, C., 63n57
Hecht, T. D., 298n41
Heffner, J. A., 474n58
Hegewisch, A., 106n34
Heidelberg, J., 329n77
Heil, G., 432n8, 433n11
Heizer, J., 528n51, 530n58–59
Helfat, C. A., 226n7
Helft, M., 224n2, 320n37, 494n13
Helkama, K., 138n66
Heller, D., 382n49–50
Hemmasi, M., 295n30
Hemp, P., 183n11
Hempel, J., 109n52, 342–343n12
Hempel, P. S., 362n57
Henderson, A. D., 234n22
Henderson, A. M., 31n6
Henderson, F., 174
Henderson, R. I., 326n62
Heneman, H. G., III, 442n51
Heneman, R. L., 551n37
Henneman, T., 416n35
Hennig-Thurau, T., 15n33
Henry, R. A., 353n24
Hentrich, C., 273n19
Henwood, C. I., 404n2
Heracleous, L., 380n46
Herbert, T. T., 447n65
Herbst, M., 297n36
Hermerling, J. W., 91
Hernan, P., 558n60
Herrenkohl, R. C., 474n58
Herrera, S., 553n43
Herring, C., 218n37
Herring, J. P., 249n5
Herron, M., 168n61
Hersey, P., 466–467, 466n17
Hershcovis, M. S., 395n96
Herson, M., 399
Herzberg, F., 433–434, 433n13, 447
Heskett, J., 50n19
Heskett, J. L., 54n25, 504n55, 534
Hess, K. A., 330n81
Hessel, E., 12n23
Hesterly, W., 291n8, 291n13
Hewlett, S. A., 48n15, 393n89
Hibbets, A. R., 496n17
Hicks, S., 156n12
Hiebert, M., 217n36
Hiestand, M., 265n5
Hietanen, J., 226n7
Higgins, C. A., 169n66, 383n61
Higgins, D. M., 382n50
Higgins, L. H., 389n83
Higgins, S., 127n23
Higgs, A. C., 348n6
High, K., 50n16, 238n36
Hill, C. W. L., 232n20
Hiller, N. J., 383n58
Hillman, A. J., 50n19, 126n17
Hilton, J. L., 389n84
Hinds, P. J., 362n55
Hinkin, T. R., 430n1, 472n48
Hitt, M. A., 235n27–28, 235, 236n31, 291n14, 296n35
Hlupic, V., 273n19
Hochwarter, W. A., 22n43
Hodgetts, R. M., 70n3, 291n8
Hoegl, M., 359n45
Hoel, H., 329n76
Hoetker, G., 291n14
Hof, R. D., 12n26, 274n28, 556n53
Hoffman, B. J., 376n26
Hoffman, J., 398n97
Hoffman, J. J., 278n40
Hofstede, G., 82–84, 82n61–62, 446n59
Hohenfeld, J. A., 441n47
Holcomb, T. R., 5n6
Holland, J., 386
Holland, J. L., 386n77
Holland, K., 301n56
Hollenbeck, J. R., 436n27
Hollender, J., 340
Hollensbe, E. C., 298n41
Hollon, J., 314n13
Holman, D. J., 440n42
Holmes, R. M., Jr., 5n6
Holmes, S., 190n23
Hom, P. W., 320n40, 376n19, 377n32
Homburg, C., 376n22
Hoobler, J. M., 112n62, 112n64
Hooker, J., 91
Hookway, J., 75n26, 103n27
Hope, J., 251n21, 253n25
Hori, Y., 48n13, 103n26, 104n28
Horn, S., 551
Horng, R. Y., 197n34
Horovitz, B., 426n66
Horwitz-Bennett, B., 414n30
Hosmer, L. T., 473n50
Hotz, R. L., 291n6
Hough, L. J., 356
Hough, L. M., 355n29
Hough-Dunnette, L., 356
Hourihan, G., 186n21
House, R. J., 82, 82n63, 84, 157n14, 467, 467n19, 470n34, 471n37, 475, 475n63, 478
Hout, T. M., 45n6
Hovey, J., 547n35
Howard, A., 475

Howard, T., 291n11
Howell, C. M., 470n34
Howell, J. M., 169n66, 383n61, 470n30, 470n32, 470n34
Howell, J. P., 470n34, 476n69
Hoy, F., 463n9, 537n3
Hsieh, T., 445
Huang, J-C., 169n66, 436n28
Huang, J-H., 433, 494
Huber, G., 276n33
Hudepohl, D., 264n3
Hudson, K., 437n32
Huff, C., 450n79
Hughes, J., 354n27
Hughey, A., 127n19
Hulbert, J. M., 205n3, 226n7
Hulin, C. L., 376n20, 377n32
Hülsheger, U. R., 166n50
Hult, G. T. M., 226n7, 291n14
Humber, Y., 189n22
Humphrey, S. E., 265n6
Hunger, J. D., 207n10
Hunsaker, P. L., 99n8, 118n78, 281n42, 305n62, 411, 411n21
Hunt, J. G., 464n12, 471n37, 475, 475n62
Hunt, M. R., 205n3, 211n21, 213n27, 226n7
Hunter, J. E., 210n15
Hurtz, G. M., 382n49, 382n50
Huselid, M. A., 313n5, 337
Hutson, B., 112n65
Hyatt, D. E., 348n6
Hyatt, J., 139n75, 140n82, 290n5, 297n36
Hymowitz, C., 112n63, 206n5, 292n16

I

Ibish, H., 111
Iger, B., 498
Ilgen, D. R., 436n23
Ilgenfritz, S., 161n26
Ilies, R., 374n5, 436n30, 461, 461n5, 469n25
Immelt, J., 127, 494
Imperato, G., 359n45
Inagi, M., 543
Inkson, K., 85n68
Inoue, K., 65n58
Ip, G. W. M., 384n67
Ireland, R. D., 184n14–15, 235n27–28, 235, 296n35
Irwin, D. A., 76n33
Irwin, R. D., 130n31, 405n6, 442n52
Isa, P., 235
Isidore, C., 314n12
Ivancevich, J. M., 436n26
Iverson, R. D., 441n45
Izzo, P., 48n14, 314n12

J

Jackson, D. W., Jr., 15n30, 15n33, 376n22
Jackson, H., 72n9
Jackson, L., 109n47
Jackson, M., 418n50
Jackson, S. E., 163n36, 313n5
Jackson, T., 418n50
Jacob, R., 232n19
Jacobs, B., 23–24
Jacobs, J., 23–24
Jagersma, P. K., 165n46
Jain, C. L., 251n19
Jain, S. C., 248n4
Jana, R., 296n31
Jana, T., 168n57
Janis, I. L., 353n23, 362n51
Janisch, T., 383n62
Jans, N. A., 377n29
Jargon, J., 55n29, 70n1, 526n42, 535n62
Jarrett, H. F., 322n45
Jarzemsky, M., 165n45, 469n21
Jassawalla, A., 352n17
Javidan, M., 82n63, 84, 85n69, 86, 157n14, 475, 475n63, 476n64
Jaworski, R. A., 352n17
Jayson, S., 48n11, 298n41, 330n83, 330n85, 383n62
Jean, E. A., 212
Jehn, K. A., 52n22, 354n27, 356n32
Jenkins, J. M., 383n59
Jennings, D., 275n30
Jennings, D. F., 232n20
Jensen, M. C., 132n37, 346n3
Jensen, S. M., 384n66
Jermier, J. M., 476n69
Jernigan, I. E., 404n2
Jesitus, J., 156n10
Jessop, B., 498n27
Jessup, S., 555
Jewell. L. N., 348n4
Jick, T., 291n8
Jin, 387
Jobs, S., 407, 471
Johansen, R., 337
John, E., 244
John, O. P., 382n49
Johnsen, B. H., 483n72
Johnson, A. C., 558n59
Johnson, A. L., 348n6
Johnson, D., 148n97
Johnson, D. E., 373n4, 376n25–26
Johnson, G., 235n26
Johnson, H., 251n22
Johnson, I., 486n1
Johnson, K., 418–419
Johnson, R., 375n17
Johnson, S., 404n1
Johnson, S. D., 152n4
Joinson, C., 357n33, 358–359n39
Jokisaari, M., 324n49
Jolly, D., 78n43, 175n70, 199n36
Jones, B., 4n1
Jones, C., 220n39, 291n13
Jones, D., 114n70, 137n63, 187n20, 276n37, 482n71
Jones, D. A., 376n27
Jones, E., 388n80
Jones, G., 54n25
Jones, G. A., 402, 406, 410, 414, 417, 421
Jones, J. W., 131n35
Jones, S. R., 34n8
Jones, S. R. G., 34n8
Jones, T. M., 133n44
Jones, T. O., 504n55
Jordan, P. J., 386n73–74
Joseph, D., 526n41
Josephson, M., 140
Joshi, A., 101n12
Joshi, M., 132n40
Joyce, C. I., 275n30
Joyce, W. F., 183n10, 275n31, 535
Judge, T. A., 100n9, 105n30, 106n37, 107n43, 109n47, 109n53, 112n60, 162n33, 374n5, 375n16, 380n44, 382n49–50, 436n30, 461, 461n5, 470n29–30
Judson, G. T., 474n58
Judy, R. W., 337
Jung, A., 114, 276, 470
Jung, D. I., 359n46, 470n30
Juran, J., 35, 35n10
Jurkiewicz, C. L., 59n48, 61n55
Jusko, J., 35n10, 209n13, 297n36, 487n6, 519n17, 522n29
Jussila, I., 440n43

K

Kabanoff, B., 466n16
Kabigting, F., Jr., 447n66
Kacmar, C. J., 22n43
Kacmar, K. M., 22n43
Kadet, A., 453n95
Kaeter, M., 348n4
Kafka, P., 55n29
Kahn, B., 248n1
Kahn, J. A., 289n4
Kahn, R., 463n10
Kahn, W., 374n9
Kahn, W. A., 268n8
Kahneman, D., 190n25
Kaihla, P., 290n5
Kalliath, T., 332n96
Kameda, T., 353n23
Kamenetz, A., 141n86
Kammeyer-Mueller, J. D., 384n64
Kanai, A., 162n35
Kanchier, C., 341n6
Kandola, R. S., 322n45
Kane, M. P., 449n75
Kane, Y. I., 145n94, 407n11
Kanfer, R., 448n69
Kanigel, R., 30n3
Kanter, R. M., 165n46
Kanungo, R. N., 470n32–34, 470n36, 476n68
Kaplan, D. A., 436n20
Kaplan, M., 533n61
Kaplan, R. S., 496n17
Karaian, J., 417n37
Karasick, M., 357
Karr, A. R., 330n80
Karson, M. J., 131n34
Katerberg, R., 377n32
Katz, D., 463n10
Katz, G., 511n62
Katz, J., 65n58, 251n19, 378, 438n35, 523n34
Katz, R., 448n71
Katz, R. L., 12, 20
Katzenbach, J. R., 289n4, 358, 368, 455
Kauffeld, R., 127n23
Kauffman, C., 295n25
Kaufman, B. E., 183n11
Kaufmann, P., 80
Kaul, J., 34n8
Kay, J., 204n1
Kearney, E., 100
Keegan, P., 56n38
Keenan, F., 359n45
Keeney, R. L., 193n31, 198
Kegan, R., 158n17
Keim, G. D., 50n19, 126n17
Kelleher, K., 208n12
Keller, C., 552n40
Keller, R. T., 374n9, 470n30
Kelley, H. H., 388n80
Kelley, T., 58n42, 130n32, 173
Kellogg, W. K., 115, 232

Kelloway, E. K., 476n66
Kelly, A., 63n57
Kelly, K., 438n37
Kelly, S., 333n112
Kemelgor, K. H., 152n4
Kenis, P., 272n18
Kennedy, A., 253n25
Kennedy, A. A., 65
Kennedy, J. C., 475
Kennedy, M., 354n26
Kent, M., 519
Kenyi, S., 393–394
Kerr, J., 482n71
Kerr, S., 291n8, 455, 463n9, 476n69, 488n8
Kesmodel, D., 224n2, 418n44, 445n57
Kessler, M., 409n15
Kessler, S. R., 114n69
Ketchen, D. A., Jr., 291n14
Ketchen, D. J., Jr., 226n7
Kets De Vries, M. R. F., 71n7, 291n8
Kettering, C. F., 7n12
Keveny, B., 225n6
Khan, H., 109
Khosla, L., 81n60
Kidder, D. L., 15n32–33, 58n47, 500n42
Kidder, R., 215n34
Kidder, R. M., 135n52, 145n94
Kido, Y., 389n84
Kienzle, M. A., 52n21, 54n24
Kiernan, M. J., 41
Kiger, P. J., 358n37
Kihm, J. A., 384n67
Kijkuit, G., 166n52
Kilduff, M., 383n60
Kiley, D., 307n63
Killham, E., 431n6
Kilmann, R. H., 160n23
Kim, E., 237n33–34
Kim, L., 61n55
Kim, P. H., 474n55
Kim, S-P., 385n71
Kim, T-Y., 385n71
Kinard, D., 249n5
Kindler, H., 190n24
King, M. L., Jr., 471
King, N., 174n71
King, N., Jr., 510n61
King, R., 332n101–102, 497n20
King, R. J., 291n10
Kingsbury, K., 164n42, 338n114
Kinicki, A., 376n19, 376n22
Kinlaw, D. C., 349n8
Kinsella, K., 103n27, 104, 104n29
Kirk, D. J., 442n49
Kirkman, B. L., 359n45–46
Kirkpatrick, S. A., 461, 461n5, 470n34
Kirnan, J. P., 320n40
Kirsner, S., 308n64, 416n35
Klaff, L. G., 320n40
Klein, H. J., 436n27
Knapp, S., 456
Knemeyer, A. M., 522n26
Knight, C., 251
Knight, G. B., 540n17
Knight, P., 190
Knoke, D., 272n18
Knopf, A. A., 384n63
Knopf, L., 248
Knox, N., 73n14
Koch, J., 556
Koch, M. J., 313n5
Koeppel, D., 450n86
Koerner, B. I., 540n15
Kogan, N., 383n61
Kogut, B., 538n5
Kohlberg, L., 130n32, 131
Köhler, N., 486n1
Kohn, M. K., 185n19
Kohpaiboon, A., 314n11
Kolodinsky, R. W., 22n43, 60n55
Konovsky, M. A., 376n27, 442n49
Konrad, A. M., 119
Koontz, H., 494n12
Koopman, P. L., 470n34
Kopko, E., 553
Kor, Y. Y., 313n5
Koretz, G., 70n2
Korkki, P., 315n16, 329n70, 375n10, 409n15
Korman, A. K., 322n45
Korn, M., 299n47
Korsgaard, M. A., 158n17, 354n27, 474n53
Koslowsky, M., 468n20
Kosonen, M., 236
Kotkin, S., 72n10
Kotler, P., 306
Kotter, J., 50n19
Kotter, J. P., 54n25, 158n18, 172n68, 173
Kouzes, J. M., 471n40, 473n49
Kover, A., 380n42–43
Kowitt, B., 72n9
Koys, D. J., 376n22
Kraatz, M. S., 324n49
Kraft, D., 76n29
Kraimer, J. L., 377n35
Kraimer, M. L., 384n64, 449n72
Kram, K. E., 268n8
Kramer, S. J., 166n52, 167n56
Kranz, G., 161n29, 211n19, 323n47, 332n108, 386n76
Kraut, A. I., 11n19
Kreiner, G. E., 298n41
Krell, E., 251n22, 253n25, 296n35, 500n40
Kripalani, M., 16n37
Krishnamurthy, B. V., 363n61
Krishnan, R., 232n19
Kristof-Brown, A. L., 470n30
Kroll, K. M., 373n3
Kroll, M., 234n21
Krone, B., 35n10
Krueger, A. B., 375n12
Krueger, J., 431n6
Krueger, N. F., Jr., 541n18
Kuczmarski, T. D., 519n15
Kühn, K., 511n62
Kulik, C. T., 432n8–9, 433n13, 435n19, 436n22–23, 437n34, 438n38–39, 439n41, 441n46, 442n48, 442n52
Kumar, K., 248n4
Kumaritashvili, N., 486
Kunda, G., 448n71
Kurke, L. B., 132n40
Kurland, N. B., 414n26
Kurlantzick, J., 85n64
Kursh, C. O., 405n4
Kurtz, R., 537n1

L

Laabs, J., 161n26
Lachnit, C., 140n81
Lado, A. A., 312n3
Laff, M., 401n100
Lahey, L. L., 158n17
Lajtha, A., 460, 477
Lallos, L., 264n1
Lam, S. K., 376n22
Lam, W., 469n25
Lamb, R., 232n17
Lambert, D. M., 522n26
Lambert, L., III, 60n50
Lamont, B. T., 278n40
Lampe, J. C., 132n40
Lamy, P., 77
Landler, M., 81n57
Landro, L., 449n73
Landy, F. J., 386n75
Lane, H. W., 362n59
Lane-Maher, L., 60n50
Lang, D. J., 225n6
Lange, J. R., 557n57
Lange, L., 552
Langley, A., 183n9
Lanhart, J., 48n13
Lapide, L., 250n14
Larsen, E. W., 258n29
Larson, J., 23n45
Larson, L. L., 464n12
Larsson, R., 186n21
Laschever, S., 533n61
Laseter, L., 494n15
Laseter, T., 494n15, 519n17
Lashinsky, A., 455n96, 519n16
Latham, G. P., 210n16, 210n18, 435n19, 436n22–23
Lattman, P., 215n34, 224n2
Lau, A. W., 11n19–20
Lauchlan, S., 372n1, 400n99
Lauper, C., 244n41
Lavell, J. L., 373n4
Lavelle, L., 214n30
Lavie, D., 296n35
Lavin, D., 156n11
Law, K. S., 313n5, 327n65, 386n74
Lawler, E. E., III, 327n65, 432n9, 442n52
Lawrence, B. S., 374n5
Lawrence, K. A., 152n4
Lawrence, P., 276n35
Lawson, S., 213n26
Lawson, T., 388n81
Lay, K., 140
Lazaridis, M., 168
Lazenby, J., 168n61
Leahy, T., 250n14, 251n19–20, 253n25, 496n17–18, 498
Leana, C. R., 152n3
Leavitt, H. J., 283, 368
Lebedev, A., 95
Leblebici, H., 313n5
Lechleiter, J., 152, 264
Ledford, G. E., Jr., 327n65–66, 359n40
Lee, A. G. M., 382n50
Lee, C., 327n65, 436n29
Lee, H., 250n13
Lee, J., 462
Lee, J. M., 15n33
Lee, S. Y., 451n93
Lees, R. J., 114
Lehmann, J-P., 48n13, 103n26, 104n28
Lei, D., 291n14
Leibs, S., 497n22, 520n20, 523n31, 523n33
Leinwand, D., 226n9
Leiser, K., 24n44
Lemmon, G., 112n62, 112n64

Lencioni, P., 449n78
Lencioni, P. M., 135n53, 368
Lendrum, B., 158n17
Lengnick-Hall, C. A., 58n47
Lengnick-Hall, L., 58n47
Leno, J., 198–199
Lenz, R., 502n46
Leonard, B., 110n55, 316n22
Leonard, D., 214n33, 407n11
Leone, M., 500n37
Lepe, B., 456
LePine, J. A., 373n4, 376n25–26
Lester, S. W., 474n53
Levering, R., 51n20, 326n64, 455n96
Levie, J., 538n10
Levine, J., 57n41
Levisohn, B., 426n66
Levitan, T., 372
Levitz, J., 111, 338n114
Levy, S., 519n15
Levy, W., 188
Lewicki, R. J., 156n12
Lewin, K., 153, 153n5, 462n7
Lewin, T., 418n44
Lewis, A., 5n7, 77n42, 273n24, 324n50
Lewis, E., 236
Lewis, K., 469n23
Lewis, M., 385n70
Lewis, M. W., 154n7, 258n29
Li, A., 355n30
Liao, H., 313, 313n5
Lickona, T., 131
Liden, R. C., 352n17, 449n72, 469n22–24
Lidogoster, H., 355n29
Lidsky, D., 140n76
Lieberman, D., 154n6
Liebs, S., 125n5
Liedtka, J. M., 292n21
Liepmann, H., 106n34
Lindblad, C., 130n28
Lindegaard, S., 296
Linebaugh, K., 65n58, 217n36
Ling, Y., 85n67, 470n30
Lipman-Blumen, J., 368
Lippitt, R., 462n7
Lips-Wiersma, M., 60n52
Liska, L. Z., 468n20
Littman, J., 58n42, 399
Littman, M., 450n81
Litzky, B. E., 15n32–33, 58n47, 500n42, 501n45
Liu, J., 205n3
Liu-Lien Tan, C., 526n40
Livingston, A., 558n60
Livingstone, L. P., 450n89
Lo, R., 150, 154, 155, 158, 162, 166, 169
Lobo, M. S., 363n64
Loch, C. H., 317n26
Locke, E. A., 210n16, 210n18, 375n18, 380n44, 386n75, 435n19, 436n22–23, 436n26, 436n29, 437n34, 449n78, 461, 461n5, 470n34, 474n58
Lofthouse, R., 476n65
Loftus, P., 264n1
Lohr, S., 288n1, 342n11
Lok, P., 54n24
London, M., 436n27
Long, A., 259n33
Lopez, Y. P., 374n7
Lorange, P., 557n56
Lord, R. G., 441n47
Lorsch, J. W., 276n35, 348n6
Löscher, P., 137
Lott, A. M., 112n65
Lott, V., 359n43
Loughridge, K., 363–364
Louison, M., 246
Lounsbury, M., 31n6
Lovallo, D., 234n22
Loveman, G. W., 504n55
Lowe, M. D., 436n25
Lowery, M., 142n93
Lowrey Miller, K., 85n64
Lowry, T., 237n32
Lu, H. L., 537
Lu, L., 161n28
Lubatkin, M. H., 470n30
Lubin, D. A., 127n25
Lublin, J. S., 145n94, 167n53, 226n8, 236n29, 291n12, 340n1, 342–343n12, 413n24, 418n44
Lucas, J. R., 471n38
Lucier, C., 520n20
Ludwig, T. D., 436n25
Luh, S., 417n41
Lu-Lien Tan, C., 66n59
Lumpkin, G. T., 237n33
Lumpkin, J. R., 232n20
Luna-Arocas, R., 441n45
Lundgren, T., 273–274
Lunsford, J. L., 135n55, 204n2, 517n6
Luo, M., 312n1, 313n8
Luo, X., 376n22
Lusch, R. F., 250n13
Lüscher, L. S., 154n7
Luss, R., 445n56
Luthans, F., 70n3, 384n66, 436n29, 449n78
Lux, S., 22n43
Lyall, S., 510n61
Lynn, K. D., 458, 461, 466, 470, 472, 473, 477
Lynn, M. L., 60n55
Lyon, D. W., 552n40
Lyons, D., 58n43, 291n10
Lyons, J., 74n22

M

Maatman, G. L., Jr., 329n77
MacDonald, N., 486n1
Machiavelli, N., 383
MacIntosh, J., 158n17
MacIntyre, J., 5n7, 77n42, 110n58, 132n39, 162n32,193n29
MacKenzie, S. B., 352n19, 374n5, 376n25, 476n69
Mackey, A., 124n2
Mackey, J., 542
Mackey, J. P., 418
Mackey, T. B., 124n2
Macky, K., 441n45
MacMillan, D., 224n2
MacMillan, P., 357n34
MacNab, B., 447n66
Macsai, D., 244n41
Macshane, D., 74n18
Maddever, M., 291n11
Madjar, N., 166n52, 168n58
Madoff, B., 129
Maeriac, J. P., 376n26
Magnusson, P., 487n6
Magretta, J., 225n5
Maher, K., 139n71, 437n32, 500n34
Mahoney, J., 291n14
Mai, R., 425
Majchrzak, A., 359n43, 359n45
Ma Kam Wah, T., 48n13, 103n26, 104n28
Makino, S., 161n28
Malhotra, A., 127n23, 359n43, 359n45
Malik, O., 409n15
Malkin, E., 74n21
Malone, M. S., 291n10
Malone, T. W., 283, 337
Malshe, A., 352n17
Mamberto, C., 163n37
Mandel, M., 331n93
Maney, D., 14
Maney, K., 160n22
Mangelsdorf, M. E., 234n22
Mankins, M. C., 482n71
Mannix, E. A., 354n27
Mano, R., 330n87
Maples, M. F., 346n3
March, J. G., 183n10, 414n26
Marcus, A., 296n35
Marcus, A. A., 127n25
Margolis, J. D., 126n12–13, 134n49, 137n61, 384n65
Margonelli, L., 193n27
Mariotti, J., 253n25
Mark, R., 140, 259, 260
Markey, R., 283n43
Marklein, M. B., 57n39, 59n49, 132n39
Marques, J., 60n55
Marquez, J., 91n71, 297n37, 298n40, 298n42, 312n1, 377n36, 418n48, 418n50, 447n67, 456n97
Marriott, B., 112
Marshall, J., 368n69
Marte, J., 291n9
Martel, L., 455
Martin, A., 4n1, 392n88
Martin, C., 474n55
Martin, C. A., 394n93
Martin, J., 251n22, 370, 379, 382, 390, 392, 395
Martin, L., 2, 8, 12, 16, 18, 19
Martin, R., 470n30
Martin, R. L., 169n64
Martinez, M. N., 320n40
Martinko, M. J., 11n19, 381n48, 388n80
Martins, L. L., 359n45
Mascai, D., 224n1
Maslow, A., 432, 432n8
Masterson, S. S., 469n23
Mathieu, J. E., 348n6, 359n45
Mathys, N. J., 63n57, 248n4
Matsuba, N., 93
Matthews, A. W., 332n102
Mattioli, D., 217n36, 226n8, 236n29, 329n71, 445n56, 453n95, 499n30
Mauborgne, R., 275n30
Mauermann, J., 317n26
Maurer, H., 130n28
Maurer, J. G., 384n64
Mausner, B., 433, 433n13
Maxham, J. G., III, 58n47
Maxwell, J. C., 371
May, D. R., 374n9
May, S. K., 54n26
Mayer, D. M., 15n33, 58n47
Mayer, M., 361
Mayer, R. C., 473n50, 474n53
Maynard, M., 65n58
Maynard, M. T., 359n45
Mayo, E., 34, 34n7
Mazzarella, M., 425

McAfee, A. P., 301n58
McAfee, B., 330n81
McCafferty, J., 502n48
McCain, J., 135
McCaleb, P., 555
McCartney, S., 526n43
McCauley, D. P., 379n41, 380n43
McCaw, N., 132n41
McClean, B., 541n23
McClelland, C. L., 438n38
McClelland, D. C., 434, 434n14–17, 435
McClenahen, J., 75
McClenahen, J. S., 5n10, 135n55, 356n31, 358n37, 505n57, 527n46
McClure, J. R., 330n87
McConnell, C. W., 363n60
McCrae, R. R., 82n63, 384n67
McCraty, R., 163n36
McDaniel, R. R., Jr., 226n7
McDermott, R., 295, 295n27–29
McDowell, J., 538n4
McEvily, B., 296n35
McFarlan, F. W., 258n29
McFarland, S., 542n26
McFarlin, D. B., 442n49
McGahan, A. M., 232n20
McGinn, D., 517n3
McGirt, E., 432n10
McGrath, J. E., 353n24
McGrath, R. G., 291n8, 313n5
McGregor, D., 433, 433n11
McGregor, J., 58n47, 81n59, 86, 110n58, 168n63, 230n13, 284n44, 321n41, 326n58, 364n66, 425n65
McGuire, J. B., 126n13, 126n15
McGuire, J. M., 126n12
McKay, B., 45n3, 72n9, 217n36
McKearney, A., 109n51
McKee, D. O., 58n47
Mckenna, D. D., 11n19
McKenna, J. F., 442n48
McKeough, T., 290n5
McKinnell, H., Jr., 413
McKinnon, J. D., 75n24
McKnight, S., 425n65
McLagan, P. A., 164n40, 165, 165n44
McLaughlin, B., 50, 238, 238n36
McLaughlin, K. J., 291n7, 291n10
McLean, B., 146
McMahan, G. C., 312n3
McMahon, J. T., 436n26
McMurray, S., 529n56
McMurrer, D., 312n3, 496n17
McNamara, G., 184n12
McNatt, R., 502n51
McNerney, J., 482
McShane, S. L., 375n18
McWilliams, A., 126n16
Medsker, C. J., 348n6
Meece, M., 432n7
Meert, P., 540
Meglino, B. M., 323n46
Mehra, A., 383n60
Mehrabian, A., 410n18
Mehta, S. N., 114, 213n28
Meindl, J. R., 45n5
Meister, J. C., 394n93
Mellor, B., 199n36
Menon, S. T., 470n34
Menon, T., 441n46
Mercer, D., 431–432
Merchant, K. A., 486n3
Merrell, R., 481
Merrick, A., 108n45
Merrifield, R., 291n13
Merriman, K., 349n9
Merritt, J., 139n74
Meyer, A., 264n2
Meyer, J. P., 184n12, 437n31
Meyer, R. D., 382n49
Mezrich, B., 346n2, 368
Michaels, D., 220n39, 314n14, 517n6
Michaelson, L. K., 353n24
Middleton, D., 57n39
Mijuk, G., 401n100
Mikitarian, G., 449
Miles, L., 404, 421
Miles, R. E., 275n30, 291n13
Miller, A. G., 388n81
Miller, C. C., 55n29, 184n14–15, 205n3, 276n33
Miller, D., 234n21, 275n30
Miller, D. J., 446n61
Miller, J., 264n1, 331n91
Miller, J. W., 76n34, 220n39, 445n57
Miller, M., 331n91
Miller, M. K., 184, 184n14
Milliman, J., 60n50
Milliman, J. F., 60n54
Millman, J., 60n55
Mills, P. K., 474n58
Millstein, M., 58n46
Miner, J. B., 436n24, 438n39
Minter, S., 178n3, 498n26, 530n58
Mintz, S. L., 500n37
Mintzberg, H., 10–12, 10n18, 11n21, 20, 23, 272n17, 277n39, 305n62, 445n56
Miron, D., 434n17
Mishra, A. K., 473n50
Mitchell, T. R., 382n54, 405n6, 436n29, 467n19
Mitra, A., 327n65–66
Mitra, S., 293
Mitroff, I. A., 60n50
Mitsuhashi, H., 296n35
Moffett, M., 75n24
Mohr, L. A., 58n47, 376n23, 420n55
Mohr, R. D., 441n45
Mohrman, A. M., Jr., 357n34
Mohrman, S. A., 357n34
Molloy, R., 520n20
Molz, R., 205n4, 214n30
Monge, P. R., 167n54
Monk, A., 184n12
Monks, K., 154n7
Monsen, R. J., Jr., 126n12
Montemayor, E., 326n63
Moon, H., 184n12
Moore, J. S., 553
Moorman, R. H., 376n27
Morais, R. C., 271n12
Moran, R. T., 71n7
Morand, D. A., 274n26
Morgan, R. B., 132n42
Morgeson, F. P., 10n17, 265n6, 469n25
Morris, B., 224n2, 283n43
Morris, C. G., 356n32
Morris, M. W., 389n82
Morris, S. A., 126n15
Morrison, E. W., 273n22
Morrison, I., 173
Morrison, S., 296n34
Morse, A., 543n30
Morse, G., 288n1
Morse, S., 38
Mosakowski, E., 359n46
Mosca, J. B., 358
Moses, B., 394n93
Moses, T., 184
Moskowitz, M., 51n20, 326n64, 455n96
Moss Kanter, R., 168n61
Moss-Racusin, C. A., 114, 114n71
Mount, M. K., 382n49–50
Mouton, J. S., 463n11
Mowday, R. T., 377n32–33, 430n4, 435n19
Mowen, J. C., 15n33
Mudd, T., 518n12
Muehlchen, E., 161n28
Mueller, S. L., 446n62
Mueter, M. L., 58n47
Mulally, A., 307
Mullane, J. V., 35n10
Mullaney, T. J., 356n31
Mullen, B., 352n19–20
Muller, G., 293
Mullins, M. E., 234n22
Mulvihill, G., 141n90
Munick, M. L., 384n67
Munsterberg, H., 32, 39
Munz, D. C., 470n29
Murphy, C. J., 463n9
Murphy, S. E., 469n24
Murray, A. I., 232n20
Murray, D. K., 173
Murray, S., 227n11
Murry, W. D., 470n30
Murthy, A., 15n32
Mutsaka, F., 80n51
Mycoskie, B., 124
Mykytyn, P. P., 362n57
Myyry, L., 138n66

N

Nadler, G., 152n3
Nagarajan, N. J., 470n35
Nahrgang, J. D., 265n6, 469n25
Nam, D., 237n33–34
Nam, S., 389n83
Nanus, B., 471n38–39
Narayanan, V. G., 522n26
Nash, L., 137n62
Naughton, M. J., 60n55
Naumann, E., 15n30, 15n33, 376n22
Nayar, V., 372, 372n1, 400, 400n99
Naylor, J. C., 436n23
Neal, M. B., 332n98
Neale, M. A., 356n32, 533n61
Neck, C. P., 60n54
Needleman, S. E., 341n7, 415n34, 445n56
Negroni, C., 24n44
Nelly, 410
Nelson, B., 450n85
Nelson, R. T., 557n56
Nerad, A. J., 131n35
Neto, F., 384n67
Neubaum, D. O., 126n13
Neuborne, E., 545n33
Neuwirth, E. B., 300n53
Newman, D. A., 377n30, 380n45
Newman, R. J., 213n28
Newman, W. H., 495n16
Newsom, J. T., 332n98
Nicholls, C. E., 362n59
Nicolay, W., 156n12

Nidumolu, R., 127n25
Niehoff, B. P., 476n69, 500n42
Niles-Jolly, K., 58n47
Nishi, D., 342n8
Nissestad, O. A., 483n72
Niththyananthan, K., 314n14
Nix, N., 250n13
Nixon, G., 103
Nixon, R., 141n90
Noel, R. T., 281n42
Nohria, N., 535
Nolan, G. J., 253n25
Nongaim, K. E., 432n9
Noon, M., 414n26
Nooyi, I., 72, 214
Nooyi, I. K., 72n9
Normann, R., 521n25
Northcraft, G. B., 356n32
Norton, D. P., 496n17
Nurmi, J-E., 324n49
Nussbaum, B., 290n5
Nystrom, P. C., 276n34, 464n12

O

Obermann, R., 98
O'Brien, C., 198–199
O'Brien, J. M., 376n24, 433n12, 445n55, 462n6
O'Brien, K. E., 114n69
O'Brien, K. J., 246n42
O'Connell, A., 387n78
O'Connell, P., 488n1
O'Connell, V., 493n11, 533n60
O'Connor, P., 537n1
Odland, S., 226
Odom, M. D., 251n19
O'Donnell, J., 21n42, 50n16, 125n8, 139n69, 140n82, 238n36
Oh, H., 139n73
Oh, I.-S., 13, 152n3, 382n51
Ohayun, Y., 323n46
Ohmae, K., 91
Ohno, T., 65
Ohnsman, A., 65n58
Oldham, G. R., 166n52, 168n58, 168n61, 438n39–40
O'Leary-Kelly, A., 501
Ollier-Malaterre, A., 384n65
Olson, P., 292n19
O'Neill, R. M., 152n4
Or, A., 93n72
Ordonez, J., 518n10
Ordonez, L., 132n36
Oreg, S., 53n23
O'Regan, N., 205n3
O'Reilly, C. A., III, 52n22, 337, 437n31
Oreja-Rodriguez, J. R., 63n57
Orenstein, S., 372n2
Orey, M., 300n50–51
Organ, D. W., 373n4, 376n25–27, 382n54
Orlitzky, M., 126n18
Orphen, C., 54n24
Orwall, B., 220n39
Osborn, R. N., 464n12
Osterman, P., 23, 306
Ostroff, C., 313n5, 375n17, 376n22
O'Sullivan, K., 57n39, 312n1, 412n22
Oswald, A., 161n28
Otellini, P., 432
O'Toole, K., 372n2
Otto, N., 555–556
Overholt, A., 55n29
Ovide, S., 198n35
Owen, R., 32, 39

P

Paese, P. W., 353n24
Page, L., 289
Page, S., 537n1
Paget, R., 140–141
Paik, Y., 190n24
Paine, J. B., 374n5, 376n25
Paine, L., 134n49, 137n61
Palazzo, G., 124n3
Pallesen, S., 483n72
Palmer, K., 332n96
Palmer, N. F., 384n66
Palmer, T. B., 226n7
Palmeri, C., 57n40, 283n43
Palmisano, S., 54
Panchak, P., 8n13, 518n9, 519n15
Pandey, A., 329n70
Panja, T., 346n1
Pankoke, E., 224n1
Pant, N., 251n19
Parent, J. D., 106n38
Parker, A., 292n21
Parker, J. D. A., 386n73
Parker, S., 77n42, 273n24, 449n77, 500n37
Parker, S. K., 384n64, 438n36, 440n44
Parmar, B., 50n17
Parmar, N., 161n25
Parra, L. F., 379n41, 380n43
Parsley, A., 378n37
Parsons, T., 31n6
Parthasarthy, Y., 275n30
Pasquale, C., 283–284
Pasztor, A., 152n1
Patel, K., 297
Patera, J. L., 349n9, 357n33
Patterson, K., 394
Patton, G. K., 375n16
Paul, J., 470n34
Paul, P., 60n52
Paul, R. J., 500n42
Paul, S., 362n57
Pavett, C. M., 11n19–20
Pawar, B. S., 60n50
Pazy, A., 323n46
Peacock, L., 93n72
Peale, N. V., 146
Pear, R., 316n21, 498n25
Pearce, J. A., II, 205n3
Pearce, J. L., 313n5
Pearson, C. M., 394n94
Pedigo, P. R., 11n19
Peet, S., 25
Pell, A. R., 436n23
Pelled, L. H., 414n26
Peloza, J., 126n13–14
Peng, K., 389n82
Penley, L. E., 404n2
Penn, W., 138n66
Pentico, D. W., 132n40
Pentland, A., 407n10, 470n32
Pepitone, J., 264n1
Pereira, J., 497n22
Perez, W. D., 190
Pérez-Peña, R., 204n1
Perlmutter, H. V., 71n7
Perman, S., 430n1
Pernsteiner, T., 230n14
Perrewé, P. L., 22n43, 305n62
Perrow, C., 276n33
Perry, J., 377n32
Perry-Smith, J. E., 165n46, 168n61
Pervin, L. A., 382n49
Peteraf, M. A., 232n17
Peters, L. H., 466n15
Peters, T., 173
Peterson, J. B., 382n49–50
Peterson, M. F., 301n60, 475, 475n62
Peterson, S., 265n5
Peterson, S. J., 470n29
Petrecca, L., 320n37, 455n96, 500n31
Pettigrew, A. M., 55n33
Petty, R. E., 374n8
Pfeffer, J., 45n5, 127n25, 183n8, 206n9, 312n3, 326n60, 328n69, 337
Philips, A., 169n66
Phillips, K. W., 332n100
Phillips, M. M., 368n70
Phillips, N., 141n84
Phillips, R. A., 50n19
Pholmann, J. T., 466n15
Piccolo, R. F., 470n30
Pick, C., 202, 206, 210, 212, 213, 215
Piderit, S. K., 158n17
Pielstick, C. D., 60n50
Pierce, C. E., 330n87
Pierce, J., 128, 128n26
Pierce, J. L., 377n32, 440n43
Pietersen, W., 165n43
Pihl, R. O., 382n50
Pincher, M., 293
Pink, J., 541
Plambeck, J., 234n23
Plourd, K., 320n38
Plourde, R., 498n27
Ployhart, R. E., 322n45
Podsakoff, P. M., 352n19, 374n5, 376n25, 376n27, 472n48, 476n69
Pogson, C. E., 158n17
Polak, A., 540
Policastro, L., 204, 211
Polum, S., 312
Polutnik, N., 91
Poniewozik, J., 198n35
Poole, G., 448n71
Pooley, E., 182n7
Popp, G. E., 447n65
Porath, C. L., 394n94
Poropat, A. E., 382n52
Porras, J. I., 41, 54n25, 244, 554n48
Porter, E., 333n112
Porter, L. W., 313n5, 377n32–33, 382n49, 442n52
Porter, M. E., 232–233, 232n17, 232n20, 244
Posner, B. Z., 132n42, 471n40, 473n49
Post, J. E., 411n21
Pothast, A., 514, 517, 519, 524, 526, 528, 531
Potter, G., 451n93
Potter, J., 226
Pounds, W., 179n5
Powell, C., 472
Powell, G. N., 85n67, 106n38, 119, 332n96, 389n84
Powell, T. C., 35n10, 232n18

Prabhu, V., 251n22
Prahalad, C. K., 63n57, 127n25, 168n59, 228n12, 244, 250n14
Prasad, P., 119
Pratkanis, A. R., 351n14
Pratt, M. G., 166n52, 168n58, 184n14, 415n32
Premack, S., 436n27
Premack, S. L., 323n46
Preston, J., 103n24, 114, 276
Preston, L. E., 50n17, 131n34
Price, J. L., 374n9
Pricer, R. W., 558n59
Priem, R. L., 248n4, 291n7, 291n10
Prime, J., 114, 114n71
Prince, G., 349n10
Prince, M., 502n46
Pringle, J. K., 119
Probst, T. M., 474n58
Prokhorov, M. D., 189
Prusak, L., 292n21
Prystay, C., 217n36
Pucik, V., 226n7
Puffer, S. M., 45n5
Pugh, D. S., 275n31
Pugh, S. D., 15n33, 58n47, 420n56, 504n55
Pugmire, J., 346n1
Purdum, T., 357n33, 487n6, 540n13, 553n45
Pyenson, B., 332n104

Q

Quarls, H., 230n14
Quenk, N. L., 381n48
Quilty, L. C., 382n49
Quinn, R. E., 65
Quirarte, J., 310, 318, 319, 326, 330, 333

R

Rabinowicz, S., 541
Rabinowitz, S., 377n29
Rafter, M. V., 317n25
Raghavan, A., 111
Raiffa, H., 193n31, 198
Ralph, E. G., 467n18
Ramachandran, N., 394n90, 448n69
Raman, A., 522n26
Ramdas, K., 519n17
Ramirez, R., 521n25
Rampell, C., 314n12, 318n27
Ramstad, E., 516n1
Ramstad, P. M., 319n32
Rangan, K., 230n14
Rangaswami, M. R., 127n25
Rao, V. S., 184n12
Raphael, T., 81n60, 324n54
Rasheed, A. M. A., 291n7, 291n10
Rath, T., 368
Rausch, S., 276n35, 291n8
Raven, B., 472n48
Ravlin, E., 348n6
Ravlin, E. C., 323n46
Ray, D., 289n4
Raymond, G., 147
Raynor, J. O., 434n14
Raynor, M. E., 234n22
Realo, A., 82n63
Reason, T., 140n81, 451n94
Reay, T., 185n19
Reckford, J., 220
Reddy, S., 47n10, 48n15
Reed, D., 24n44, 220n39
Reed, S., 154n8, 276n36, 292n17
Reeves, C. A., 35n10
Reeves, M., 359n45
Reger, R. K., 35n10
Reichers, A., 158n18
Reichert, A. K., 137n61
Reichheld, F., 283n43
Reichheld, F. F., 15n29
Reilly, N., 276n37
Reilly, R. R., 436n27
Reimann, M., 226n7
Reingold, J., 60n51, 363n63, 537n1
Reinhardt, A., 292n17
Reinharth, L., 442n51
Reio, T. G., Jr., 395n96
Reisner, R., 291n12
Reitz, H. J., 348n4
Render, B., 528n51, 530n58–59
Rentsch, J. R, 375n18
Ressler, C., 456–457, 456n97
Reynolds, S. J., 130n32
Rheem, H., 451n92
Rhoades, L., 377n35
Rhone, S., 208
Rhyne, L. C., 205n3
Ribeiro, J., 213n28
Ricadela, A., 301n57
Rice, B., 34n8
Rice, D., 138n67
Richard, O. C., 100
Richardson, N., 148n97
Richman, J. M., 54n26
Riel, J., 169n64
Rifkin, G., 23n45
Riggio, R. E., 469n24, 470n26
Rihanna, 520
Rivera, R., 502n46
Robbins, K. K., 205n3
Robbins, L., 493n11, 502n46
Robbins, S. P., 23, 99n8, 100n9, 105n30, 106n37, 107n43, 109n47, 109n53, 112n60, 190n26, 197n34, 198, 281n42, 354n26, 411, 411n21
Robbins-Murray, D., 42, 48, 51, 55, 60
Roberson, B., 535
Robert, C., 474n58
Roberto, M. A., 178n3
Roberts, D., 80n52, 80n55
Roberts, J. L., 208n11, 537n1
Roberts, M. L., 496n17
Roberts, R. D., 386n73, 386n75
Roberts, S., 103n23
Robertson, C. J., 134n49
Robertson, I. T., 322n45
Robie, C., 384n67
Robinson, G., 100
Robinson, R. B., Jr., 205n3
Robinson, S. L., 324n49
Robison, J., 394n95
Rocadela, A., 213n26
Roche, F., 63n57
Rochman, B., 277n38
Rockoff, J. D., 264n1
Rockwood, K., 50n16, 148n97, 224n1, 238n36
Rodell, J. B., 162n33
Rodgers, R., 210n15
Rodkin, D., 558n60
Roehling, M. V., 161n26
Roethlisberger, F. J., 34n7
Rogge, J., 486
Roh, H., 101n12
Rohith, K., 161n28
Rohwer, J., 416n35
Romanaggi, D., 236
Romani, P. N., 209n14
Romero, C. L., 499n29
Ronen, S., 442n48
Rooney, B., 65n58
Rosen, B., 359n45, 474n58
Rosen, L., 48n11
Rosen, R. H., 481
Rosenbloom, D., 158n17
Rosenbloom, S., 16n38, 66n59, 148n97, 227n11
Rosenfeld, L. B., 54n26
Rosenman, R. H., 384n63
Rosenthal, J., 100n11
Rosenweig, M. R., 382n49
Rosner, B., 215n33, 249n9
Rosnow, R. L., 414n26
Roth, D. L., 486
Roth, P. L., 377n30, 380n45, 382n50
Rothbard, N. P., 332n100
Rothbaum, N., 308n64
Rothman, H., 289n4
Rothwell, S., 199n36
Rotter, J. B., 382n53
Roughgarden, T., 516
Rousculp, M. D., 193n32
Rousseau, D. M., 185n18, 276n34, 324n49, 377n34
Rowan, J., 432n9
Rowden, R. W., 470n34
Royal, W., 528n48, 539n11
Rozens, A., 93n72
Rozenzweig, P., 45n4
Roznowski, M., 376n20
Rubin, L., 498n27
Rubin, R., 430
Rubin, R. S., 10n17, 13, 377n28, 470n29
Ruddy, T. M., 348n6
Rudolph, W. A., 474n58
Ruffolo, R., 435
Ruhlman, J., 449n76
Ruiz-Quintanilla, S. A., 475n63
Rumelt, R., 232n17
Rupp, D. E., 373n4, 430n3, 430n5
Russell, D. W., 374n9
Russell, J. E. A., 152n3
Russell, R., 526n40
Russell, R. S., 252, 259
Ruth, E., 51n20
Ryan, A. M., 322n45, 375n17, 399
Ryan, J. R., 13
Ryan, K., 376n26
Ryan, M., 12
Ryan, V., 250n17
Rynes, S. L., 126n18

S

Saari, L., 380n44
Saavedra, R., 356n32
Sackmann, S. A., 292n21
Sacks, D., 341n5, 394n91
Sadler-Smith, E., 184n14, 185n16
Sagario, D., 414n26
Sagie, A., 468n20
Saha-Bubna, A., 165n45, 469n21
Sahadi, J., 299n44

Sains, A., 154n8, 292n17
Saiz, J. L., 384n67
Saks, A. M., 378n37
Salas, E., 357n34
Salazar, V., 5n7, 77n42, 132n39, 324n50, 330n84
Salgado, J. F., 166n50, 384n68
Salierno, D., 505n58
Salkever, A., 127n21
Salkowitz, R., 318n29
Salter, C., 168n60, 526n40
Saltmarsh, M., 175n70
Saltz, J. L., 58n47
Samarah, I. M., 362n57
Samuel, A., 339n115
Sanchez, M., 231–232
Sanchez, R., 291n14
Sandberg, J., 18n41, 341n5
Sanders, P., 204n2, 237n32, 498n28
Sandlund, C., 540n14
Sandomir, R., 189n22
Sanford, M., 238
Sangalang, J., 178n1
Sapienza, H. J., 158n17
Saralegui, C., 67
Sarnin, P., 235n26
Sashittal, H., 352n17
Sashkin, M., 471n38, 474n58, 476n68
Sasser, W. E., 504n55
Sasser, W. E., Jr., 504n55, 534
Sataline, S., 63n56
Satariano, A., 248n1
Sawhney, R., 400
Sawyer, J. E., 166n50
Saxton, M. J., 160n23
Scanlon, J., 168n59, 293n22, 418n51
Scartelli, K., 96, 101, 109, 116
Schacht-Cole, B., 437n31
Schaefer Muñoz, S., 220n39
Schaffer, B. S., 441n45
Schaubroeck, J., 132n42
Schaufeli, W. B., 378n37
Schawbel, D., 341n7
Schechner, S., 198n35, 225n6
Schein, E. H., 55n35, 65, 466n16
Schellhardt, T. D., 112n63
Schermerhorn, J. R., 475n62
Schien, E. H., 53n23
Schilke, O., 226n7
Schilling, M. A., 291n14
Schindler, P. L., 473n51
Schippmann, J. S., 382n50
Schleicher, D. J., 383n58
Schleifer, J., 374
Schlesinger, L. A., 158n18, 172n68, 504n55, 535
Schlosser, J., 519n16
Schmid, R. E., 226n9
Schmidt, F. L., 126n18, 375n17, 376n22
Schmidt, R., 537n1
Schmidt, W. H., 132n42
Schminke, M., 348n6
Schmit, M. J., 375n17, 384n67
Schneeweis, T., 126n13, 126n15
Schneider, B., 15n33, 58n47, 376n22
Schoeff, M., Jr., 316n24
Schoenherr, R. A., 275n31
Scholl, R. W., 442n48
Scholz, A., 557
Schomer, S., 162n32
Schonenberger, R. J., 232n19
Schonfeld, E., 529n57
Schoorman, F. D., 473n50
Schrader, A. W., 209n14
Schrage, M., 165n47
Schramm, J., 297n36
Schrempp, J., 236
Schriesheim, C. A., 430n1, 463n9, 466n15, 472n48
Schriesheim, C. P., 469n22
Schubert, S., 542n24
Schuker, L. A. E., 198n35
Schuler, R. S., 161n31, 313n5
Schulte, M., 376n22
Schultz, A., 133n43
Schultz, H., 72n9, 535
Schulz, M., 292n21
Schuster, J. P., 449n75
Schuster, J. R., 450n89
Schwab, C. R., 238, 283
Schwab, D. P., 442n51
Schwartz, J. L., 109n49, 110n57
Schwartz, P., 250n14
Schweiger, D. M., 158n17
Schweitzer, M. E., 132n36
Schwenk, C. R., 45n5
Scott, B. A., 374n5
Scott, J., 474n55
Scott, K. D., 375n18, 377n35
Scott, M., 158n16, 332n105, 418n46, 511n62
Scott, S. G., 168n61
Scott, W. G., 405n6, 441n47
Seaman, S., 275n30
Searcey, D., 65n58, 77n41
Searle, R., 178n1
Seashore, S. E., 352n21
Seetharaman, P., 362n57
See-young, H., 516
Segal, J. A., 330n81, 330n87–88
Segal, R., 188
Seibert, S. E., 384n64
Seifert, B., 126n15
Seligson, H., 85n66
Selko, A., 74n20
Sellers, P., 72n9
Seltzer, J., 470n27
Selvarajan, T. T., 132n38
Semin, G. R., 389n82
Seng, C. C., 380
Senge, P., 173
Senge, P. M., 292n19
Seo, M. G., 185n17
Serpa, R., 160n23
Serwer, A., 249n8
Sethi, S. P., 124n3, 275n30
Seubert, E., 318–319n30
Sevon, G., 414n26
Seward, G. T., 209n14
Shadday, A., 322n45
Shadur, K., 52n21, 54n24
Shaffer, M. A., 386n74
Shaffer, R. D., 386n74
Shaffran, C., 353n22
Shah, P., 141
Shahrim, A., 505n56
Shalley, C. E., 165n46, 168n61
Shambora, J., 72n9, 124n1, 519n16
Shamir, B., 470n30, 470n34
Shane, S., 205n3
Shani, A. B., 232n19
Shannon, H. S., 158n17
Shapiro, D. L., 359n46, 430n4, 435n19
Sharfman, M. P., 225n3
Sharma, D., 520n20
Sharp, D., 502n46
Sharp, M. E., 59n48
Sharpe, D. L., 448n68
Shaubroeck, J., 312n3, 313n5
Shaw, A., 187n20
Shaw, J. D., 22n43, 326n63, 327n65–66
Shaw, M. E., 349n8, 352n16, 353n25
Shea, G. P., 470n34
Sheats, P., 349n10
Sheep, M. L., 298n41
Shefy, E., 184n14, 185n16
Shellenbager, S., 417–418n42
Shellenbarger, S., 330n82, 330n86, 332n98, 341n5, 380n43, 409n15
Shepherd, N. A., 232n18
Sherbin, L., 48n15, 393n89
Sheridan, J. H., 212n24, 520n18, 522n30, 525n38
Sheridan, R., 405
Sherr, I., 407n11
Shetty, Y. K., 251n22, 252
Shibata, T., 93
Shifrin, T., 292n19
Shilling, D., 337
Shimizu, K., 236, 236n31
Shimizu, Y., 161n28
Shin, Y., 291n10
Shinn, S., 158n16
Shirouzu, N., 65n58
Shishkin, P., 111
Shmulyian, S., 376n22
Shore, L. J., 469n23
Short, J. C., 226n7
Shrestha, L. B., 102n18
Shrinivas, K., 161n28
Shukla, R. K., 472n48
Shull, F. A., 353n25
Sidel, R., 469n21
Sidle, S. D., 395n96, 446n63
Siebdrat, F., 359n45
Siegall, M., 443n53
Siegel, D., 126n16
Siegel, D. S., 127n25
Siegel, P. A., 474n55
Siegel Bernard, T., 555n51
Siegman, C., 449n76
Siekman, P., 273n20
Siemaszko, C., 324n52
Siklos, R., 498n28
Sills, B., 368n69
Silva, C., 98n2, 106n36
Silverman, S. B., 158n17
Simmering, M. J., 326n63
Simmons, G., 245
Simmons, K., 77n42, 110n58, 324n50, 342n9, 349n9, 449n77
Simmons, R., 537
Simon, H. A., 183n9, 275n30
Simon, T., 450n86
Simpson, B., 56
Simpson, G. R., 134n49
Simpson, L., 58n45, 379n41
Sims, R. L., 133–134n45
Simsek, Z., 63n57, 470n30
Singh, H., 471n40
Singh, J. V., 471n40
Sinha, D. K., 205n3
Sirkin, H. L., 91
Siu, O., 161n28
Sivasubramaniam, N., 470n30
Skidd, D. R. A., 183n11
Skinner, B. F., 390, 390n86, 437, 437n33

Slaughter, J. E., 378n37
Slowik, L. H., 436n23
Slywotzky, A., 243
Small, D., 533n61
Smart, T., 249n12
Smerd, J., 174n71, 414n26, 502n46
Smircich, L., 52n21
Smisek, J., 10
Smith, A., 28, 39, 141n83, 147n96
Smith, C. G., 160n21
Smith, D., 383n62, 401n100
Smith, D. K., 289n4, 358, 368
Smith, D. M., 500n39, 501, 501n44–45
Smith, E., 238n36
Smith, F., 541
Smith, K. G., 292n21
Smith, L., 214n30
Smith, P. B., 301n60, 351n13, 361n50
Smith, R. A., 537n1
Smith, R. M., 384n66
Smith, V., 300n53
Smith, W. P., 500n36
Smither, J. W., 436n27
Smyser, C. M., 382n54
Smythe, J., 378n37
Snider, J., 57n39, 383n62, 418n50
Snook, S. A., 383n55
Snow, C. C., 226n7, 275n30, 291n13
Snyder, M., 383n58–59
Snyder, N. H., 471n38
Snyder, W., 295, 295n27–28
Snyderman, B., 433n13
Snyderman, B. B., 433
Sobel, A., 348n5
Solomon, D., 140n82
Solomon, M., 342n8
Somech, A., 355n29
Sondak, H., 113n67
Song, F., 450n89
Song, L. J., 386n74
Sonne, P., 292n19
Sonnenfeld, J. A., 34n8, 470n35
Sorensen, J. B., 54n25–26, 166n52
Sosik, J. J., 359n46, 470n34
Sparks, D., 296n35
Sparrowe, R. T., 449n72, 469n22
Spector, P. E., 161n28, 376n20
Speizer, I., 299n48
Spence, J. T., 377n34, 389n84
Spencer, D. G., 376n21
Spicer, A., 133–134n45, 134n49
Spires, E. E., 193n28
Spitzer, R. D., 232n18
Spreitzer, G. M., 359n40, 473n50
Sprigg, C. A., 440n42
Sprinkle, G., 451n92
Srinivasan, D., 451n93, 470n35
Srinivasan, S., 152n4
Srivastava, A., 474n58
Srivastava, M., 372n1, 400n99
Srivastava, S., 417n38
Stahelski, A. J., 472n48
Stahl, M. J., 434n14
Stajkovic, A. D., 436n29, 449n78
Stalcup, S. S., 330n81
Stankey, J., 212
Stankov, L., 386n73, 386n75
Stanton, S., 291n8
Starbuck, W. H., 251n19, 276n34
Starke, M., 323n46
Starr, M., 492m10
Staw, B. M., 45n5, 158n17, 160n23, 168n61, 184n12, 275n30, 348n6, 385n72, 436n23, 438n36
Steckler, N., 471n44, 472n46
Stecklow, S., 551n39
Steel, R., 375n18
Steele, R., 435, 482n71
Steers, R. M., 376n21, 377n32–33, 389n83, 430n4, 435n19
Stelter, B., 198n35
Stephens, D. C., 432n8, 433n11
Sterngold, J., 147n96
Stettner, U., 296n35
Stevens, D., 291n13
Stevens, L., 98n1
Stevens, M. J., 349n7
Stevens, T., 520n22, 543n32, 557n55, 559n61
Stevens, V., 445
Stevenson, M., 60n55
Stewart, A., 111
Stewart, G. L., 349n7
Stewart, J., 450
Stewart, M., 23
Stewart, T. A., 172n68, 182n7, 474n59
Stiansen, S., 256n26
Stievenard, C., 175n70
Stilwell, D., 469n23–24
Stimpert, J. L., 237n33–34
Sting, F. J., 317n26
Stinglhamber, F., 377n35
Stjernberg, T., 169n66
St. John, C. H., 50n18
Stock, R. M., 376n22
Stodder, D., 44n1
Stogdill, R. M., 463n9
Stolberg, S. G., 316n21
Stoltz, P. G., 384n65
Stone, B., 208n12, 404, 497n22
Storrs, C., 272n15
Story, L., 147n96
Straberg, H., 154
Strandholm, K., 248n4
Straub, J. T., 10n16
Straus, S. G., 353n24
Strauss, J. P., 382n49
Street, V. L., 226n7
Strickland, A. J., III, 225n4
Stringer, K., 558n61
Stripp, W. G., 71n7
Strozniak, P., 554–555n49, 554n46
Stryker, J. B., 415n31, 415n33
Stuart, A., 251n19, 359n44
Stuart, T. E., 166n52
Stuckey, D., 77n42
Studness, M., 288
Sturdivant, F. D., 130n31
Sturman, M. C., 326n63
Stutzman, M., 484, 487, 492, 497, 499, 506
Subramanian, R., 63n57, 248n4
Subramony, M., 313, 313n5
Sucharski, I. L., 377n35
Sudhashree, V. P., 161n28
Sueyoshi, T., 193n28
Sugimori, S., 353n23
Sukumaran, N., 82n62
Sulkowicz, K., 326n59
Sullenberger, C., 324, 368n70
Sullenberger, C. B., III, 324n52
Sullivan, C. C., 414n30
Sullivan, J., 318–319n30, 445n56
Sullivan, L., 109n50
Sullivan, S. E., 340n2
Sumberg, K., 48n15, 393n89
Summer, J., 556n54
Sun, L., 313n5
Sundgren, A., 126n13, 126n15
Sundin, H., 496n17
Sundstrom, E., 358n36
Surroca, J., 126n13
Suttle, J. L., 432n9, 439, 439n41, 440
Sutton, R. I., 5n7, 183n8
Swann, W. B., Jr., 442n49
Swanson, G., 319n34
Swanson, W. H., 413
Swartz, J., 16n34, 132, 404n1
Sweeney, P. D., 442n49
Swerdlow, D., 519n17
Swierczek, F. W., 475n61
Swigart, R., 337
Swisher, K., 166n51
Switzer, F. S., III, 382n50
Symonds, W. C., 12n26
Sztykiel, J., 236
Szulanski, G., 292n21
Szymanski, K., 352n18

T

Tabak, F., 500n36
Taber, T. D., 469n24
Tabuchi, H., 65n58
Taft, S., 134n49
Takata, T., 161n28
Talley, L., 407n10
Tam, P-W., 319n33, 500n34
Tamte, P., 196
Tan, C. S. F., 473n52
Tan, H. H., 473n52
Tang, D., 24n44
Tanikawa, M., 78n43
Taninecz, G., 523n32
Tannen, D., 407n10
Tanner, C., 489–490
Tansky, J. W., 551n37
Tanzer, A., 251n24
Tapon, F., 450n89
Tarasova, A., 234n22
Tarraf, P., 214n30
Tasler, N., 193n29, 438n37
Tata, J., 359n46
Tata, R., 16, 168
Taylor, A., 503n54
Taylor, A., III, 4n3, 213n25, 251n24, 307n63, 498n25
Taylor, B. W., 526n40
Taylor, B. W., III, 252, 259
Taylor, C., 290n5, 430n1
Taylor, F. W., 28n1, 29–30, 31, 39, 253
Taylor, G. S., 375n18
Taylor, M. S., 319n34
Teach, E., 190n25
Teagarden, M., 85n69, 86
Teece, D., 291n10
Tepper, B. J., 466n15
Teresko, J., 80n50, 204n2, 519n15, 520n20, 522n26
Terez, T., 55n30
Terlep, S., 44n2, 174n71
Terracciano, A., 82n63
Terwilliger, J. R., 219–220, 219n38
Tesluk, P. E., 152n3, 348n6, 359n45
Testa, B. M., 152n1

Tetrault, L. A., 466n15
Tetrick, L. E., 469n23
Tharenou, P., 362n58
Thida, T., 542
Thiederman, S., 119
Thierry, H., 442n52, 470n34
Thill, J. V., 411, 420n58
Thomas, A., 250n13
Thomas, C. C., 473n51
Thomas, C. H., 378n37
Thomas, D. A., 114
Thomas, D. C., 85n68
Thomas, E. J., 352n16, 353n25
Thomas, H., 205n3
Thomas, J. B., 226n7
Thomas, J. S., 226n7
Thomas, K., 356
Thomas, K. W., 355n29
Thomas, O., 412n23
Thompson, A., 486n1
Thompson, A. A., Jr., 225n4
Thompson, B., 98
Thompson, J., 456–457, 456n97
Thompson, J. D., 276n33
Thompson, L., 441n46
Thompson, M., 483n72
Thomson, L., 399
Thoppil, D. A., 319n33
Thoresen, C. J., 375n16
Thornton, G. C., 322n45
Thottam, J., 456n97
Thunholm, P., 483n72
Thurm, S., 46n8, 193n30, 328n69
Thurston, K., 438n37
Tichy, N. M., 198
Tijoriwala, S. A., 324n49
Tikkanen, H., 226n7
Tilton, G., 10
Tirrell, M., 152n2, 264n1
Tischler, A., 226n7
Tischler, L., 58n42
Tjosvold, D., 362n57
Tkaczyk, C., 51n20, 326n64, 332n102
Todd, S. Y., 22n43
Toffler, B. L., 146
Toppo, G., 392n88, 479n70
Tornow, W. W., 376n22
Totaro, M. W., 251n19
Totterdell, T., 440n42
Townley, R., 286, 291, 293, 295, 298, 302
Toyoda, A., 65–66
Tracey, P., 141n84
Trafimow, D., 470n34
Trap, P., 500n37
Treadway, D. C., 22n43
Trespicio, T., 23n45
Treviño, L. K., 130n32, 131n35, 132n42, 135n54
Trewatha, C., 68, 76, 80, 87
Tribo, J. A., 126n13
Trickett, D., 60n50
Tripoli, A. M., 313n5
Tripp, E. G., 324n51
Trippie, B., 394
Trist, E., 276n35
Trollope, R., 308
Trotsky, J., 248n2
Trottman, M., 178n2
Trunk, P., 394n93
Tsai, W. C., 15n33
Tschang, C-C., 497n22
Tsui, A. S., 313n5
Tubbs, M. E., 353n24, 436n23
Tuchman, G., 264n2
Tucker, K. A., 5n4
Tuckman, B. W., 346n3
Tudor, A., 92n72
Tugan, B., 393
Tugend, A., 110n58, 380n47
Tulgan, B., 318n28
Tuna, C., 21n42, 319n33
Tunwall, T. K., 344, 348, 353, 359, 364
Turek, B., 545n34
Turner, M. E., 351n14
Turnley, W. H., 374n5, 374n6
Tushman, M. L., 296n35
Tversky, A., 190n25
Tyler, T., 474n55

U

Uggerslev, K. L., 376n27
Uhl-Bien, M., 469n22, 469n24
Ullman, M., III, 236
Ulrich, D., 291n8
Unckless, A. L., 383n58
Ungson, G. R., 474n58
Urban, D. S., 337n113
Urbina, I., 510n61
Useem, J., 55n32
Useem, M., 112n65, 471n40
Uzzi, B., 305n62

V

Vaidyanath, D., 296n35
Vaill, P. B., 152n4
Valukas, A., 147
Vanacore, A., 508n59
Vance, A., 308n64
Vance, C. M., 190n24
Vance, J., 213n26
Vandebook, S., 165n45
Vandebroek, S., 165
Van den Berg, P. T., 470n34
Vandenberg, R. J., 441n45
Vandenberghe, C., 54n24, 377n35
Van denEnde, J., 166n52
Vanderkam, L., 110n58, 331n92
VanderVeen, S., 60n55
Van der Veer, J., 276
Van der Weide, J. G., 470n34
Van de Ven, A. H., 183n10, 275n31
Van deVliert, E., 351n14, 354n27
Van Dyne, L., 356n32
Van Eerde, W., 442n52
Van Fleet, D., 272n13
Van Kleef, G. A., 360n48, 387n78
Van Lee, P., 132n41
Van Rooy, D. L., 386n74
Van Steenbergen, E. F., 332n96
Van Vianen, A. E. M., 354n27
Vardi, Y., 395n96, 399
Vascellaro, J. E., 55n34, 274n28, 319n33, 416n35
Va Vianen, A. E. M., 54n24
Vecchio, R., 160n21, 467n18, 469n24
Vega, A., 77
Veiga, J. F., 448n70, 470n30
Velasquez, M., 329n74
Velez, B., 98n3
Veliquette, A., 363n60
Verespej, M. A., 161n26
Verity, J. W., 250n13
Verschoor, C. C., 500n40
Vicere, A. A., 476n66
Victor, B., 291n8
Victorov, V. I., 446n61
Viega, J. F., 130n29
Villano, M., 424n63
Villareal, P., 127n19
Vinas, T., 474n57, 487n6, 518n14, 521n23, 527n45, 528n47
Vinchur, A. J., 382n50
Violino, B., 187n20
Visconti, L., 103n21, 115n72
Visser, J., 315n17
Viswesvaran, C., 386n74
Vizquel, O., 390
Vlasic, B., 307n63
Vleeming, R. G., 383n55
Voelpel, S. C., 100
Vogelstein, F., 248n3, 470n31
Volkema, R. J., 180n6
Von Hippel, W., 389n84
Voss, B., 232n19
Vroom, V. H., 442, 442n50, 442n52

W

Waddock, B. A., 126n13
Waddock, S., 126n13
Wageman, R., 35n10
Wagner, C. G., 248n4
Wagner, J. A., III, 275n31, 436n25
Wagner, R., 16n36, 23, 293
Wagner-Johnson, D., 354n26
Wagner-Marsh, F., 60n50
Wagner-Tsukamoto, S., 30n3
Wahba, M., 442n51
Waldman, D. A., 430n3, 430n5, 470n34
Waldroop, J., 349n7
Walker, D., 111
Walker, J., 320n36
Walker, M., 47n10, 74n17–18
Walker, N. G., 384n67
Wall, J. A., Jr., 533n61
Wall, T. D., 440n42
Wallach, M. A., 383n61
Waller, D., 251n24
Waller, M. J., 356n32
Wallman, J. P., 235n28, 235
Walsh, B., 299n43
Walsh, G., 15n33
Walsh, J. P., 50n17, 126n12, 415n32, 438n36
Walster, E., 441n47
Walster, G. W., 441n47
Walter, F., 470n34
Walters, B. A., 248n4
Walters, H., 290n5, 361n49, 407n11
Walumba, F. O., 132n42, 470n29
Wanberg, C. R., 158n17, 384n64
Wang, C. W., 197n34
Wang, J., 385n71
Wang, P., 109n49, 110n57
Wang, S. S., 171n67
Wang, V., 48n13, 67, 103n26
Wang, Y. D., 276n33
Wanous, J. P., 158n18, 323n46
Wanuck, D., 358n38
Ward, S., 5n7, 77n42, 110n58, 162n32, 383n62, 418n50, 449n77, 500n37
Warfield, A., 407n10
Warner, D., 320n39
Warren, A., 428, 431, 438, 449, 450, 451
Warren, K. M., 405

Warriner, C. K., 206n9
Wartick, S. L., 125n6
Wartzman, R., 57n39
Watkins, B., 462
Watkins, S., 140
Watson, G. H., 251n22
Watson, W. E., 353n24
Wattenberg, B. J., 82
Wayne, L., 210n17
Wayne, S. J., 112n62, 112n64, 352n17, 377n35, 449n72, 469n22–24
Weathersby, L., 214n32
Weaver, G., 132n40, 132n42
Weaver, G. R., 130n32
Webb, M. S., 137n61
Weber, J., 131n33–34, 132n40, 138n67, 139n70, 235n24
Weber, M., 29, 31–32, 31n6, 39, 264
Weber, R. A., 184n12
Weber, T., 476n66
Weed, S. E., 382n54
Weeks, R., 330n81
Weick, K., 193–194, 193n32
Weill, P., 234n22
Weinberger, D., 187n20
Weingart, L. R., 362n55
Weinstein, M., 136n56, 162n32, 211n19, 273n24, 284n44, 301n58, 339n115, 342n8, 349n9
Weintraub, A., 152n2, 217n36, 264n1, 356n31
Weintrop, J. B., 45n5
Weisberg, P. F., 171n67
Weiss, A., 259n33
Weiss, H. M., 385n72
Weiss, J., 354n27, 551n38
Weissenberger, B., 425n65
Weisul, K., 455n96
Weitz, E., 395n96, 399
Welch, D., 174n71
Welch, J., 4n2, 291, 380n43
Welch, S., 4n2, 380n43
Welch, S. B., 132n39
Wellins, R. S., 472n45
Wellman, N., 476n66
Wellner, A. S., 193n29
Welsh, M. A., 258n29
Wenger, E., 295, 295n27–28
Wessler, V., 138n64
West, B. J., 349n9, 357n33
Western, K., 215n35, 249n5
Wheatley, M. J., 481
Wheelen, T. L., 207n10
Wheeler, A. R., 22n43
Wheeler, D. L., 414n26
Wheeler, M. L., 99n7
Whelan, D., 497–498n23
Wherry, A., 486n1
Whitacre, E., 175
White, A., 127n25
White, B., 417n39, 500n33
White, E., 12n24, 138n68, 380n43, 418n44, 450n82, 450n88, 451n90, 500n34, 528n54
White, J., 134n49
White, M. C., 142n93
White, P., 390n85
White, R. E., 234n21
White, R. K., 462n7
White, T., 156n13
Whiteside, K., 404n1
Whitford, B., 528n49
Whiting, S., 154
Whitlock, B., 498n27
Whittington, J. L., 469n24
Wicks, A. C., 50n17, 50n19
Wiesenfeld, B. M., 442n49
Wilderom, C. P. M., 470n34
Wildstrom, S. H., 308n64, 418n49
Wiley, J., 275n31, 433n13
Wiley, J. W., 15n33, 58n47, 376n22, 420n56, 504n55
Williams, A., 409n13
Williams, C., 106n34
Williams, C. R., 436n27, 450n89
Williams, E., 404
Williams, J. E., 384n67
Williams, M. L., 476n69
Williams, R. B., 106n32
Williams, R. J., 278n40
Williams Nash, M., 333n112
Willyerd, K., 394n93
Wilson, E., 23n45, 469n21
Wilson, M. C., 312n3
Wilson, M. G., 441n45
Wind, Y., 71n7
Wingfield, N., 288n2, 500n34
Winkler, C., 187n20
Winsor, J., 296, 296n33
Winstein, K. J., 21n42
Winter, G., 500n42
Winters, M. F., 99, 99n4
Winters, R., 387n79
Wirtz, J., 380n46
Wiscombe, J., 140n80, 450n85
Wise, R., 243
Woehr, D. J., 376n26
Wofford, J. C., 436n27, 468n20
Wolf, C., 521n24, 533n60
Wolff, S. B., 349n8
Wolgemuth, L., 106n31
Wonacott, P., 80n51
Wong, C., 386n74
Wong, G., 147n96
Wood, D. J., 125n6
Wood, R. A., 126n13
Woodman, R. W., 166n50, 168n62
Woodward, C., 416n35
Woodward, C. A., 158n17
Woodward, J., 276, 276n32
Wortham, J., 224n2, 227n11
Worthen, B., 304n61, 497n20
Worthley, R., 447n66
Woycke, J., 470n34
Wright, A. D., 316n23
Wright, P., 234n21
Wright, P. M., 312n3
Wright, T., 109n51
Wright, T. A., 376n21
Wycoff, J., 16n35
Wyld, D., 234n21
Wyld, D. C., 168n61

X

Xiaojuan, H., 56

Y

Yach, D., 368
Yamaji, H., 93
Yammarino, F. J., 469n22, 470n34
Yanes-Estévez, V., 63n57
Yang, J., 5n7, 57n39, 58n44, 77n42, 110n58, 132n39, 162n32, 211n19, 234n22, 273n24, 297n36, 324n50, 330n84, 342n9, 349n9, 383n62, 418n50, 449n77, 500n37
Yang, J. L., 363n63, 522n28
Yang-Ho, C., 159–160
Yarrow, D., 251n22
Yasai-Ardekani, M., 276n35
Yaukey, J., 499n29
Ybarra, M. J., 127n24
Yen, H., 7n12
Yergin, D., 85n64
Yetton, P., 353n25
Young, M., 411n21
Youngblood, S. A., 131n35, 135n54
Youngs, R., 540
Yousuf, H., 281n41
Yu, J., 384n67
Yu, R., 159n20, 301n58
Yu, S., 161n28
Yuan, F., 168n62
Yukl, G., 470n32
Yunker, G. W., 34n8

Z

Zablah, A. R., 15n33
Zabojnik, J., 272n16
Zacharia, A. G., 250n13
Zagorski, M., 56n36
Zahra, S. A., 126n13
Zald, M. N., 141n88
Zamiska, N., 34n9
Zand, D. E., 235n28, 235
Zander, A., 463n10
Zander, A. F., 472n48
Zapp, J., 4
Zaslow, J., 385n69
Zatzick, C. D., 441n45
Zeidner, R., 339n115
Zeldin, Z., 188
Zeller, T., J R., 510n61
Zellner, W., 140n77
Zemke, R., 474n55
Zenger, J. H., 481
Zenger, T., 291n8
Zhang, J., 276n33
Zhang, X., 169n65
Zhang, Z-X., 362n57
Zhong, J. A., 469n25
Zhou, J., 168n61
Zhou, X., 469n22
Zielinski, D., 138n68, 259n31, 407n10
Zimmerman, E., 330n89, 341n7, 425n65
Zimmermann, K. A., 214n31
Zingheim, P. K., 450n89
Zivnuska, S., 22n43
Zmuda, N., 44n1
Zogby, J., 91
Zoghi, C., 441n45
Zoroya, G., 406n8
Zubko, N., 525n36
Zuckerberg, M., 55, 238
Zukis, B., 447n66

Organization Index

A

Abercrombie & Fitch, 101, 109
Abt Electronics, 125
Accentra, Inc., 184
Accenture, 213, 298, 448, 460
Acxiom Corporation, 358
AddictingGames, 224
ADP, 270
Affiliated Computer Services, 230
AG Interactive, 372
AgSquared, 141
Airbus, 76–77, 134, 517
AirTran, 25
Alcoa of Australia, 528
Alpha Chi Omega, 461
Amazon.com, 166, 208, 290, 352, 376, 470, 530
American Airlines, 178
American Eagle, 67
American Express, 112, 112n65, 266, 528
American Institute of Stress, 161n27
American Management Association, 211n19
American Medical Association, 498
American Psychological Association, 377n30
American Standard, 230, 523
Amerigas Propane, 332
ANA (All Nippon Airways), 204
Anheuser-Busch InBev, 46, 79, 234
Annual Academy of Management, 332n100
Aon Corporation, 80
Apache Corp., 56–57
Apple, 58, 165, 166, 212, 230, 234, 246, 376, 381, 407, 471, 527
Applebee's Restaurants, 450
Applied Sustainability Center, University of Arkansas, 148
ArcelorMittal, 294, 359
ARM, 292
Asia Pacific Management Forum, 162n35
ASIS International, 525n37
Associated Press, The, 106n35, 141n90, 175n70, 204n1, 219n38, 265n5, 314n14, 329n77, 332n103–104, 346n1, 418n44
Atomic Games, 196
AT&T, 100, 163, 174, 211–212, 246, 304n61, 381
Avery-Dennison, 156, 266
Avon Products, 41, 114, 227, 276, 470

B

BAE, 134
Bancolombia, 369
Banco Santander, 57
Bang & Olufsen, 234
Banker, The magazine, 369
Bank of America, 46, 141
Barbarian Group, 71, 94
Bayer AG, 58, 276
BBC News Online, 134n46
BCP Imports, 277
BearingPoint, 324
Beckman Coulter, Inc., 229
Beloit College, 392
Belu, 140–141
Benetton Group SpA, 156
Best Buy, 13, 16, 54, 234, 246, 296, 394, 456–457, 520
Bethlehem Steel Company, 29
Black and Decker Corporation, 266, 332, 519
Bloomberg L.P., 206
Blue Bird Corporation, 536–537, 536n63
BlueCross BlueShield, 164n39
Blue Cross of California, 449
BMW, 220, 317, 317n26, 529
Body Shop, The, 229
Boeing, 76, 134, 204, 258, 290, 292, 307, 328, 358, 482, 517
Boeing-Rocketdyne, 359
Bombardier, 74
Bonobos, Inc., 430
Bose Corporation, 229
Boston Beer Company, The, 556
Boston Consulting Group, 230–231, 231n15
Boston Market, 502
Boston Pizza International, 325
Boston Red Sox, 492
BP, 100, 156, 281n41
Branson AirExpress, 25
Branson Airport, 25
British Airways, 314n14, 315, 511–512
British Petroleum (BP), 281, 420, 510–511
Buckle, 176, 194
Build-A-Bear Workshop, 56, 59
BusinessWeek, 493
Butler International, Inc., 553
BYD, 166, 225

C

Cadbury Schweppes, 230
Caliber Group, 42, 60
Canadian Imperial Bank of Commerce, 518
Canon, Inc., 325
Carbon Disclosure Project, 148
Carlsberg A/S, 445
Carlton and United Breweries, 528
Carrier-Carlyle Compressor Facility, 209
Castlight Health, 495
Catalyst, 106, 114
Caterpillar, Inc., 91, 92, 332, 527
CBS, 199
C. Dean Metropoulos & Company, 224
CEDC (Central European Distribution), 545
Center for Academic Integrity, 139
Center for Creative Leadership, 357
Center for Ethical Business Cultures, 137n61
Central Falls High School, 479–480
Charles Schwab Corporation, 283–284
Chartered Management Institute, 499
Cheesecake Factory, 517
Cheil Worldwide, 95
Chemistry.com, 380
Chevron, 418, 418n44
CHG Healthcare Services, 326
Chick-fil-A, 58
Chico's, 253
Children's Place, The, 545
Chuck's Parking Service, Inc., 202, 215
Cianbro, 164
Circuit City, 46
Cisco Systems, 14, 32, 45, 138, 220, 264, 301, 301n57
Citibank, 417
Citicorp, 163
Citigroup, 469
ClearCarbon, 148
Cleveland Clinic, 498
CNN, 212, 264n2
Coach, 234
Coca-Cola, 41, 127, 134, 231, 234, 519
Coleman, 258
Coleman Trust, Inc., 350
Colgate Oral Pharmaceuticals, 402, 421
Colgate-Palmolive, 140, 259, 260
Collaborative, Planning, Forecasting, and Replenishment Committee, 250n13
Comcast, 15–16
Commerce Bank, 2, 19
Committee to Encourage Corporate Philanthropy, 142, 142n93
Compaq Computer, 46, 156, 183
Conference Board, 332
Conrad & Co., 299
Container Store, 474
Continental Airlines, 10, 211
Cordis LLC, 438
Core Systems, 488
Corning, 132, 319, 358
Corporate Knights Inc., 129n27
Cott Corporation, 45
CPAC, Inc., 270
Cranium, 56
Credit Foncier de France, 91–92
Credito Emiliano, 80
C. R. England, 313–314
Crown Beers, 79
Curves for Women, 96, 116
Customer Satisfaction Measurement Association, 493

D

Daimler AG, 77, 236
Darden Restaurants, 462
David's Bridal, 384–385
Daxko, 159
DDB Stockholm, 158
Decision Lens, 359
Deere and Company, 522
Def Jam Records, 244, 537
Dell, 12, 140, 212, 225, 296, 328, 471, 529
Deloitte & Touche, 314, 320, 447, 497n21
Delphi, 528
Denver Mint, 486, 494–495
Deutsche Bank AG, 78, 206, 206n8
Deutsche Telekom Co., 98, 116, 121
Dial Corporation, 140
Discovery Communications Inc., 326
Disney, 238n36

Domino's Pizza, 426–427, 426n66, 493, 493n11, 526
Dots, LLC., 428, 451
Dow Chemical, 528
Dowden Custom Media, 222, 239
Dreamworks Animation SKG, 374, 416
Dun & Bradstreet (D&B), 249
Dunkin' Brands, 79
DuPont, 78, 128, 474, 474n57
D&W Fine Pack, LLC, 310, 333

E

EBay, 229, 328, 542, 556
EGreetings, 372
Eichstaedt & Devereaux, 295
Electrolux, 154
Eli Lilly Co., 152, 264, 264n1
Emerson Electric, 251
Encana Corp., 129, 206, 206n8
Enron, 46, 130, 135, 135n53, 139, 140, 147, 504–505
Enterprise Rent-a-Car, 503–504
Environmental Defense Fund, 148
Equal Employment Opportunity Commission (EEOC), 101, 108, 329, 330
Ericsson, 292, 292n17
Ernst & Young, 99, 100, 101–102, 102n16, 103n25, 110, 147, 148, 299, 339
ESPN, 236, 237n32
Ethics and Compliance Officer Association, The, 139n71
Ethics Resource Center, 132n39, 140n78
E*Trade, 50
European Commission, 230, 329
European Union, 76, 109, 230, 314, 330
Eurotunnel, 199–200
Evans Findings Company, 517
EV Rental Cars, 541
ExxonMobil, 141

F

FAA, 164, 324n51
Facebook, 6, 55, 166, 224, 227, 339, 339n115
Fairmont Hotel, 127
Families and Work Institute, 299
FBI, 304n61
FedEx, 234, 300, 333n112, 369, 449, 449n73, 472, 541
Fiat, 78
Fiji Water, 127–128
First Solar, 166
Food Network, 67
Forbes, 493
Ford Australia, 266
Ford Motor Company, 34, 44, 58, 78, 93, 125, 307–308, 307n63, 416, 529
Fortune, 22, 51, 72, 98, 136, 139, 228, 251, 276, 313, 329, 331, 342, 357, 436, 455, 493
Foxconn Technology Group, 161
France Télécom, 175
Francital, 542
Frédérick Fekkai & Co., 71
Fresh Direct, 321
Frito-Lay, 78, 295
Frito Lay North America, 229
Frontier Airlines, 25

G

Gaea News Network, 47n9
Gallup Organization, 5, 5n4
Gannett News Service, 342n11
Gap, Inc., 67
GapKids, 545
General Cable Corporation, 5, 273, 524–525, 527
General Electric, 166, 528, 529
General Electric (GE), 7, 32, 41, 79–80, 127, 291, 381, 494
General Mills, 251
General Motors Corporation (GM), 44, 47, 174, 174, 328, 404
Genuine Scooter Co., 555
Geodis Wilson, 204
Gillette, 46
Giordano Holdings Ltd., 251
GlaxoSmithKline, 163, 296
Global Witness, 128
Glory Foods, 256
Goldman Sachs, 135, 139, 497
Google, 7, 128, 141–142, 165, 166, 167, 248, 281n41, 289, 289n3, 319, 320, 320n37, 332, 361, 416, 436, 455–456, 455n96, 493, 494, 497
Graphic Laminating Inc., 547
Green Earth Gardening Supply, 489–490
Green Gear Cycling, 557
Greenpeace, 128
Grupo Bimbo, 93
Grupo Televisa, 212
Guatemalan Pollo Campero, 79
Gymboree, 545

H

Habitat for Humanity, 142, 219–220, 219n38
Hackensack University Medical Center, 356
Hallmark, 266
Harley-Davidson, 530
Harrah's Entertainment, 58
Hartford Distributors, 501
Harvard Business School, 21, 276n35
Harvard Pilgrim Health Care, 446
Harvard University, 476
Hasbro Toy Company, 50
Hay Consulting Group, 482
HCL Technologies, 372, 400
Headwaters MB, 14
Health Net Inc., 301
Heartland Payment Systems, 497
Heineken N.V., 93
Hendrick Motorsports, 253
Herbalife, 21
Herman Miller, Inc., 554
Hewitt Associates, LLC, 328n67
Hewlett-Packard, 46, 58, 80, 81, 128, 156, 166, 167, 183, 213, 290, 358
Hilton Hotels, 215
Hitachi, 214
H. J. Heinz Company, 78, 93
HMAS *Sheean,* 473
HOB Entertainment, 230
Hollister, 109
Holly Energy Partners, L.P., 286, 302
Home Depot, 67
HON Company, 8
Honda Motor Company, 79–80, 214, 315
Honeywell, 328
Horn Group, The, 551
Hot Topic, 50
House of Blues Clubs, 230
Huawei, 166
Human Rights Campaign Foundation, 109–110
Hyundai Heavy Industries, Inc., 516, 516n1
Hyundai Motor, 212–213

I

Iams, 238
IBM Corporation, 54, 78, 82, 89–90, 110, 115, 133, 133n43, 160, 166, 213, 251, 301, 314, 333, 357, 443, 496
IDEO, 58, 290, 418–419
IHOP International, 450
IKEA, 80, 192–192, 253, 521, 522
Inc., 537
Indiana University, 219–220
Inditex, 235
IndustryWeek, 493
Innovest Strategic Value Advisors, 129n27
Institute for Global Ethics, 136
Integrated Information Systems Inc., 499
Integrity Home Care, 370, 395
Intel Corporation, 128, 234, 319, 431, 432, 448, 516
Internal Revenue Service, 137–138, 300
International Association of Business Communicators, 405, 405n5, 420–421
International Luge Federation, 486
International Monetary Fund (IMF), 76, 77, 85
International Olympic Committee, 486
International Organization for Standardization (ISO), 129, 528
Intuit, 295, 296n31
ITT Industries, 528

J

Japanese Ministry of Labour, 161n28, 162–163
Japan Industrial Safety and Health Association, 161n28
J.B. Hunt Transport Services, 259
J.C. Penney Company, 67, 236, 545
J.D. Power, 44, 321
JetBlue Airways, 44, 51, 60
J. M. Smucker, 326
Johnny Rockets, 350
Johnson Controls Inc., 520
Johnson & Johnson, 163, 528
John Wiley & Sons, 248n4
Josephson Institute of Ethics, 140

K

Keas, Inc., 455
Kellogg Company, 115–116, 115n75, 232
Kelly Services, 449–450
Kennesaw State University, Corporate Governance Center, 505
KFC, 70
Khayelitsha Cookie Company, 540
Khmer Internet Development Services (KIDS), 542
Kirin, 79
Kiva.org, 141
Kmart Corporation, 224–225
Kodak, 110, 319, 340
Kohl's Corporation, 66–67
Korean Air, 159–160
Korn/Ferry International, 101
KPMG Global Sustainability Services, 16n39, 298–299
Kraft Foods, 93, 357, 461, 522
Kroger, 161

L

Latex Foam International, 518
Latin American Foods, 229
Latin Trade magazine, 369

Lawrence Erlbaum Associates, Inc., 470n26
Lehman Brothers, 46, 93, 130, 139, 147–148
Levi Strauss, 529
LG Electronics, 166
Life is good, 23–24, 23n45
Life is good Kids Foundation, 24
Limited Brands, 251
LinkedIn Corporation, 430
Little Kids, Inc., 6
Live Nation, 229
L.L. Bean, 193, 376
Lockheed Martin Corporation, 138, 356, 416, 416n35
L'Oreal, 229, 312, 312n2
Louis Vuitton, 290
Lucent Technologies, 386
LVMH Moët Hennessy Louis Vuitton SA, 95, 231, 530

M

MAC Cosmetics, 245
Macy's, 67, 273–274, 274n25
Major League Baseball, 248
Marks & Spencer, 251
Marque, Inc., 555
Marriott Hotels, 251
Marriott International, 112–113, 112n66
Maruichi Bagel, 543
Mary Kay Cosmetics, 55, 56, 471
Massachusetts General Hospital, 79
MasterCard, 165, 188–189, 469, 469n21
Mattel, 168, 529
Mayo Clinic, 6, 368
McAfee, 308n64
McDonald's, 67, 118, 206, 206n6, 251, 266, 299, 328, 329, 329n71, 494, 518, 526
McMurry, Inc., 349n10
Meade Instruments Corporation, 543
Menlo Innovations, 405
Mercer Human Resource Consulting, 379n41
Merck, 328, 340
Merrill Lynch, 46, 78
MGM Mirage, 21, 98
Miami International Airport, 323
Michael's, 67
Michelin, 231, 271
Microsoft, 17, 32, 166, 248, 258, 314, 317, 317n25, 320, 552
Midvale Steel Company, 29–30
Mine Safety Appliances Company, 554
Missouri State Employees Retirement System, 78
Mohawk Industries, 128
Molson-Coors, 142
Monsanto Company, 417
Moscow Ballet, 461
Motorola, 290, 528
Motown Records, 208
Mount Mercy University, 344, 364
MTV, 50, 224
MWH Global, 363

N

NASA, 152, 169
NASCAR, 251n24, 358
National Football League, 265
National Heart Foundation of Australia, 227
National Hockey League, 551
National Restaurant Association, 4, 4n1
National Rural Electric Cooperative Association, 394
National Speleological Society, 497–498
NBA, 189
NBC Universal, 198–199
Neeley School of Business, Texas Christian University, 250n13
Nestlé, 469, 523
Nestlé SA, 78, 93, 95
New Balance Athletic Shoes, 238
New Jersey Nets, 189
New York City Fire Department, 321, 321n43
Neyret, 542
Nichols Foods, 450, 450n80
Nielsen Media Research, 154
Nike, 58, 190, 206, 206n8, 296
Nintendo, 15
Nissan Motor, 72, 77, 107, 251, 498
Nokia Corporation, 246, 246n42, 296, 420, 420n57, 528
Nomura Holdings Inc., 93
Nordson Corporation, 524
Nordstrom, 58, 234
Northrup Grumman Corporation, 527
Norwich Union, 418
Novartis AG, 166, 315, 315n18
Nuestro Banco, 275
NuPhysicia, 157
Nvidia Corporation, 433, 494

O

Office Depot, 226
Ohio State University, 462, 463, 478
Old Navy, 67
Onexim Group, 189
OPEC, 276
Organization for Economic Cooperation and Development (OECD), 47, 76, 77, 77n40, 135, 135n51
Organization for European Economic Cooperation, 77
Outward Bound School, 476
Oxford University, 461

P

Pacific Gas & Electric, 166, 331
Pactiv Corporation, 522
Palm, 58
Panda Express, 12, 12n23
Parrish Medical Center, 449
Patagonia, 128
PATH (Program for Appropriate Technology in Health), 141, 141n87
Paychex, 332
Payless Shoe Source, 251
Pearson PLC, 129
Pella Corporation, 518
Penske Truck Leasing, 292
Pepperdine University, 349n9
PepsiCo, Inc., 72, 78, 93, 214, 228, 272, 295, 358, 368, 469
PepsiCo Americas Beverages, 229
PepsiCo Americas Foods, 229
PepsiCo International, 229
Pew Research Center, 102n18
Pfizer, 284, 284n44, 295, 340, 413, 441
Pfizer Japan Inc., 342
Pfizer's Consumer Healthcare Group, 523
Phat Farm, 537
Philips Professional Luminaires, 357
Pitney Bowes, 167
Pizza Hut, 70
PricewaterhouseCoopers, 142
Procter & Gamble, 7, 41, 46, 58, 95, 165–166, 210, 217, 238, 238n38, 249, 249n8, 250, 296, 326
Project Joy, 24

Q

Qantas Airways, 15
Quaker Foods North America, 229
Qualcomm, 246, 296, 326

R

Radio City Rockettes, 391
Radio Shack, 21
RainmakerThinking, 393
Ram Tool, 312
Randstad Holding NV, 401
Randstad USA, 324, 401
Randy's Photocopying Service, 230
Raytheon Company, 413
Reckitt-Benckiser, 77–78, 95
Recording Industry Association of America, 499
Renault, 72, 77
Republic of Tea, 430
Research in Motion, 168
Retailer Hot Topic, 238
Ritz-Carlton Hotels, 232, 419
Rockwell Automation, 358
Rockwell Collins, 484, 506
Rowe Furniture, 526
Royal Bank of Canada, 103
Royal Dutch Shell PLC, 78, 276
R. R. Donnelley & Sons Company, 234
RSA Security, 541
R&S Information Services, 378
Rush Communications, 537, 537n1
Russell Simmons Argyle Culture, 537
Ruth's Chris Steak House, 324

S

Sabre Holdings, 301
Saint-Gobain Performance Plastics, 523
Saks, 500
Samsung, 32
San Francisco Giants, 248
Sapient Corporation, 553
Sara Lee, 230
Sargento Foods Inc., 514, 531
SAS Institute, 258, 436, 448, 470
SCAN Health Plan, 297, 298
Schering-Plough, 527
Schlotzky's, 79
Schlumberger, 319
Schwab Foundation for Social Entrepreneurship, 141n84
S. C. Johnson & Sons, Inc., 110
Scotiabank, 156
Seagate Technology, 462
Sealed Air Corporation, 249
Sears, 67, 135, 135n53
Sears Holdings Corporation, 224, 262, 279
SeaWorld Parks and Entertainment, 239n39, 242
Sephora Cosmetics, 71
Seventh Generation Inc., 340
Shakey's Pizza, 79
Siemens AG, 129, 137, 328, 519
Siemens Windpower, 129
Simplex Nails Manufacturing, 518
Singapore Airlines (SIA), 238, 380, 380n46
Skinny Improv group, 356
Skip Hop, 542
Skoda, 518

Smart Balance Inc., 167, 291
Société Générale, 377
Society for Human Resource Management, 99, 99n6
Sodexho, 115
Sony Corporation, 52, 78, 91, 92, 166, 528
Southwest Airlines, 52, 55, 58, 60, 232, 313, 376, 419, 504, 526
South-Western Cengage Learning, 295n25
South-Western College Publishing, 265n4
Spartan Motors, 236
Sport Otto, 555–556
Springfield Remanufacturing Company (SRC), 449
Sprint-Nextel, 230
Staff Builders, 270
Stanford Graduate School of Business, 250n13
Starbucks, 50, 54, 129, 168, 296, 376, 417, 418n49, 535–536, 535n62
Starcom MediaVest Group, 418
Starwood Hotels, 78, 215
State Farm Insurance, 99, 99n5, 458, 477
Steve and Barry's, 46
St. Louis Cardinals, 6
Stone Oven Bakery & Café, 122, 142
StrawberryFrog, 291, 291n11
Stryker Instruments, 553
StubHub, Inc., 551
Students in Free Enterprise (SIFE), 139
Suburban Hospital (Bethesda, Maryland), 294, 359
Subway, 233–234, 357
SuccessFactors, 417–418
Sun Country, 25
Svenska Handelsbanken, 253
Swingline, 184
Sykes Enterprises, 206
Sylvania, 358
Symantec Corp., 230, 308–309, 308n64
Sysco, 522

T

Taco Bell, 70
Tandberg, 220
Target Corp., 68, 87, 141
Tata Group, 16, 93, 95, 168, 230
Tata Motors, 168
TechForum, 293
Tecnologico de Monterrey, 208
Ted's Malibu Surf Shop, 461
Tefron, 541
Tennessee Valley Authority, 379–380
Terex Corporation, 273
Tesco, 292, 292n19
Texas Instruments, 253, 471
Texas Rangers, 390
Thermo Fisher Scientific, 523
Third Sky, Inc., 150, 169
Thomson SA, 78
3M Co., 55, 91, 92, 167, 212, 234, 293, 381, 482, 482n71, 528
Timberland, 58, 60, 132
Timken's, 519
T-Mobile, 193, 321
Tom's of Maine, 58
TOMS Shoes, 124, 142
TOTAL, SA, 128
Towers Watson, 5, 314n13, 315, 414, 414n27
Toyota Motor Corporation, 65–66, 166, 214, 315, 517
Trader Joe's, 237
Trammell Crow Residential Co., 219
Turner Industries Group LLC, 110
20th Century Fox Home Entertainment, 148
Twitter, 15, 404, 404n1, 421

U

UBS AG, 135
UK National Work-Stress Network, 161n30
Unilever, 78, 230, 249
UnionSafe, 161n28
UniRush, 537
Unisys, 328, 340
Unite, 315
United Airlines, 10, 211, 251
United Nations Global Compact, 135n50
United Parcel Service (UPS), 125, 128, 164, 300, 338, 338n114, 412, 530
United Plastics Group, 80
United States Postal Service, 226n10
U.S. Air Force, 369
U.S. Armed Forces, 225, 382
U.S. Army, 464
U.S. Bureau of Labor Statistics, 22, 102n18, 103, 328, 340, 340n3, 502n47
U.S. Census Bureau, 103n27
U.S. Department of Defense, 204n1
U.S. Department of Justice, 134
U.S. Department of Labor, 22, 102n18, 108, 108n44, 502n48
U.S. Equal Employment Opportunity Commission, 329n72, 330n78
U.S. Federal Trade Commission, 230
U.S. National Institute of Occupational Safety and Health, 502
U.S. Naval Academy, 120–121, 483
U.S. Navy, 120–121, 369
U.S. Postal Service (USPS), 156, 226
U.S. Small Business Administration, 242n40, 538, 538n4, 538n7–9
United Technologies Corporation (UTC), 135
United Way, 6
Univenture Inc., 540
Universal Creative, 178
Universal Music Group, 537
Universal Orlando Resort, 178n1
University of Arizona, 208
University of Cambridge, 461
University of Iowa, 462, 478
University of Michigan, 462, 463, 478
University of Michigan Business School, 493
University of Minnesota, 322n45
University of North Texas, 354n26, 359n46
University of Oregon, 389n83
University of Warwick, 161n28
Univision, 67
UPS. *See* United Parcel Service (UPS)
UPS Airlines, 164
US Airways, 324, 324n52
USANA Health Sciences, 21
USA Today, 537
U.S. Cellular, 418
UTStarcom, 537

V

Valeo Klimasystemme GmbH, 528
Vente-privee, 224
Verizon Communications, 12, 154, 288, 295, 330, 363
Villanova University, 483
Virgin Gaming, 188
Virgin Group, 188
Visa, 188–189
Visa International, 393
VisionPoint Corporation, 138n64
Volkswagen, 328
Volkswagen AG, 518
Volkswagen Sweden, 158
Volvo, 253, 357
Volvo Construction Equipment, 251
Vurv Technology, 431

W

Wachovia, 142
Walgreen's, 108, 237
Walmart, 16, 16n38, 67, 78, 125, 125n11, 141, 148–149, 148n97, 166, 208, 224–225, 226, 229, 232, 233, 278, 315, 315n19, 437, 437n32, 498, 521, 523, 533
Walt Disney Company, 498
Watson Wyatt Worldwide, 299, 312n4, 375n14, 378n38, 474n56
Wellmark Blue Cross & Blue Shield, 164, 529
Wellness Councils of America, 164n39
Wells Fargo, 529
Wendy's, 37, 520, 526
Western Electric Company Works, 33–34
Western Provident Association, 418
Westpac Banking Corp., 129
Whirlpool Corporation, 46, 275
Whole Foods Markets, 35, 418, 418n44, 474, 542, 542n27
Wild Oats Markets, 418
William Wrigley Jr. Co., 419
Wilson Sporting Goods, 265, 265n5
Wipro, 213
W. L. Gore & Associates, 51, 54, 257, 313
World Bank Group, 76, 77, 77n38
World Business Council for Sustainable Development, 16
WorldCom, 46, 130, 147, 175
World Factbook, The, 15n31, 81, 103
World Food Program (WFP), 204, 215
World Health Organization, 368
WorldNow, 56
World Trade Organization (WTO), 76–77, 76n33, 85
Wormald Security, 528
Wyeth, 435

X

Xerox, 58, 230, 290, 295, 358
Xerox Canada, Ltd., 405
Xerox Innovation Group, 165

Y

Yahoo!, 166, 274, 274n28, 281n41, 296
Yakult Honsha, 77
Yamaha Corporation of America, 332
YouTube, 404, 417, 426
Yum Brands Inc., 70, 90, 450

Z

Zappos, 376, 445, 445n55, 520
Zhejiang Geely Holding Group Co., 93
Zimmer Holdings, 164n39, 540, 541
Zippo Manufacturing, 49

Glindex

A

Absenteeism *The failure to show up for work,* 373
Acceptance theory of authority *The view that authority comes from the willingness of subordinates to accept it,* 268–269
Achievement, in national cultures, 83E3-5
Achievement-oriented leader, 467
Active listening *Listening for full meaning without making premature judgments or interpretations,* 411
  behaviors, 411E15-3
Activist (or dark green) approach to going green, 128
Activities *The time or resources needed to progress from one event to another in a PERT network,* 254, 255
Ad hoc committee, 294–295
Adjourning *The final stage of group development for temporary groups during which group members are concerned with wrapping up activities rather than task performance,* 348, 349
Affective component *That part of an attitude that's the emotional or feeling part,* 374, 375
Affinity groups, 115–116
Affirmative action *Organizational programs that enhance the status of members of protected groups,* 315, 316
African Union (AU), 76
Age Discrimination in Employment Act, 316E12-3
Aggressive individuals, 342
Aging workforce, 47, 105–106, 318
Agreeableness, in Big Five Model, 382
Americans with Disabilities Act, 316E12-3
Anchoring effect, 190–191, 191E7-11
Angel investors *A private investor (or group of private investors) who offers financial backing to an entrepreneurial venture in return for equity in the venture,* 545
Anti-Bribery Convention, 135
Artificial intelligence software, 187
Asch's cards, 350–351, 351E13-4
Assertiveness, in national cultures, 83, 84E3-6
Association of Southeast Asian Nations (ASEAN) *A trading alliance of ten Southeast Asian nations,* 75–76, 75E3-2
Assumed similarity *The assumption that others are like oneself,* 389
Attentional processes, in social learning, 391
Attitudes *Evaluative statements, either favorable or unfavorable, concerning objects, people, or events,* 374, 375
  cognitive dissonance and, 379
  consistency and, 378
  cultural, 525
  ethnocentric, 71
  geocentric, 72, 73
  global perspective and, 71–72
  implications for managers, 380
  polycentric, 72, 73
  value chain management and, 524
Attitude surveys *Surveys that elicit responses from employees through questions about how they feel about their jobs, work groups, supervisors, or the organization,* 379–380
  sample of, 379E14-3
Attractiveness of reward, 443
Attribution theory *A theory used to explain how we judge people differently depending on what meaning we attribute to a given behavior,* 388–389, 389E14-7
Audio/videotapes, 408E15-2
Audit committee, 505
Australian laws pertaining to HRM, 317
Authority *The rights inherent in a managerial position to tell people what to do and to expect them to do it,* 268, 269
  acceptance theory of, 268–269
  line, 269–270, 270E10-5
  staff, 270, 270E10-5
Autocratic style *A leader who dictates work methods, makes unilateral decisions, and limits employee participation,* 462, 463
Automation, 156
Autonomy *The degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling work and determining the procedures to be used in carrying it out,* 439
  stress and, 162
Availability bias, 191, 191E7-11

B

Baby boomers, 47–48, 318, 394
Balanced scorecard *A performance measurement tool that looks at more than just the financial perspective,* 496–497
BARS performance appraisal, 327E12-10
Basic corrective action *Corrective action that looks at how and why performance deviated before correcting the source of deviation,* 490, 491
BCG matrix *A strategy tool that guides resource allocation decisions on the basis of market share and growth rate of SBUs,* 230–231, 231E9-4
Behavior *The actions of people,* 372, 373
  negative, in workplace, 394–395
  shaping, 391–392
  See also Ethical behavior; Organizational behavior (OB)
Behavioral component *That part of an attitude that refers to an intention to behave in a certain way toward someone or something,* 374, 375
Behavioral theories *Leadership theories that identify behaviors that differentiated effective leaders from ineffective leaders,* 462–464, 462E17-2
Behavioral theories of leadership, 462–464, 462E17-2
  managing power, 472–473
  Ohio State studies and, 463
  University of Iowa studies and, 462–463
  University of Michigan studies and, 463
Benchmark *The standard of excellence against which to measure and compare,* 498, 499
Benchmarking *The search for the best practices among competitors or noncompetitors that lead to their superior performance,* 251, 498, 499
  internal, suggestions for, 498E18-10
  steps in, 252EMP-2
Big Five Model *Personality trait model that includes extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience,* 382, 383
Blogs, 320, 416, 418, 497, 499
Board of directors, role of, 505
Board representatives *Employees who sit on a company's board of directors and represent the interests of the firm's employees,* 317, 318
Body language *Gestures, facial configurations, and other body movements that convey meaning,* 407
"Boiled frog" phenomenon *A perspective on recognizing performance declines that suggests watching out for subtly declining situations,* 557
Boundaryless organization *An organization whose design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure,* 291
  advantages/disadvantages of, 289E11-1
  internal/external, 291
  network organizations, 291–292
  virtual organizations, 291
Bounded rationality *Decision making that's rational, but limited (bounded) by an individual's ability to process information,* 183
Breakeven analysis *A technique for identifying the point at which total revenue is just sufficient to cover total costs,* 256, 256EMP-10, 257
Budget *A numerical plan for allocating resources to specific activities,* 252–253
  improving, 253EMP-4
  types of, 252EMP-3
Bulletin boards, 408E15-2
Bureaucracy *A form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships,* 31, 38
  Weber's, 31, 32EMH-4
Business model *How a company is going to make money,* 225

Business plan *A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited,* 546, 547
analysis of the context, 546
analysis of opportunity, 546
description of the business, 546
executive summary, 546
financial data and projections, 546–547
supporting documentation, 547

C

Calm waters metaphor, 152–153
Canadian Human Rights Act, 316–317
Canadian laws pertaining to HRM, 316–317
Capabilities *An organization's skills and abilities in doing the work activities needed in its business,* 228, 229
Career module, managing, 340–343
career opportunities in management, 340
cultural fit, finding, 340–341
getting along with people, 341–342
job fulfillment, 342
reinventing yourself, 341
risk taking, 341
successful career, path to, 341–342
Center for Creative Leadership study, 357
Central America Free Trade Agreement (CAFTA), 74
Centralization *The degree to which decision making is concentrated at upper levels of the organization,* 272, 273
today's view of, 272–273
vs. decentralization, 272E10-7
Certainty *A situation in which a manager can make accurate decisions because all outcomes are known,* 187
Chain of command *The line of authority extending from upper organizational levels to the lowest levels, which clarifies who reports to whom,* 268, 269
authority and, 268–270, 269E10-4, 270E10-5
dual, in matrix structure, 290
information technology and, 271
responsibility and, 270
today's view of, 270–271
unity of command and, 270
Change agent *Someone who acts as a catalyst and assumes the responsibility for managing the change process,* 155
Change-capable organizations, 164–165, 165E6-8
Change process, 152–154
calm waters metaphor and, 152–153
in entrepreneurial ventures, 551–552
external and internal forces for, 152, 153E6-1
Lewin's three-step change process and, 153, 153E6-2
resistance to, 158–159, 159E6-5
white-water rapids metaphor and, 153, 154
See also Organizational change
Channel *The medium a message travels along,* 406, 407
Charismatic leader *An enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways,* 470–471
Civil Rights Act of 1964, 316E12-3
Classical approach *First studies of management, which emphasized rationality and making organizations and workers as efficient as possible,* 29, 38
Classical view *The view that management's only social responsibility is to maximize profits,* 124, 125
Clicks-and-bricks strategy, 237
Closed system *Systems that are not influenced by and do not interact with their environment,* 36, 38
Closely held corporation *A corporation owned by a limited number of people who do not trade the stock publicly,* 548EA-4, 549
Code of ethics *A formal statement of an organization's primary values and the ethical rules it expects its employees to follow,* 136–137
Coercion, to reduce resistance to change, 159, 159E6-5
Coercive power *The power a leader has to punish or control,* 472, 473
Cognitive component *That part of an attitude that's made up of the beliefs, opinions, knowledge, or information held by a person,* 374, 375
Cognitive dissonance *Any incompatibility or inconsistency between attitudes or between behavior and attitudes,* 379
Collaboration, organizing for, 293–297
benefits and drawbacks of, 293E11-3
external collaboration, 295–297
internal collaboration, 294–295
value chain management in, 522
Collectivism, in national cultures
in GLOBE framework, 84, 84E3-6
in Hofstede's framework, 83E3-5
in-group, 84, 84E3-6
institutional, 84, 84E3-6
Command groups, 347E13-1
Commitment concept *The purpose of an organization,* 211–212
Committee to Encourage Corporate Philanthropy, 142
Communication *The transfer and understanding of meaning,* 404–405
functions of, 405–406
information technology and, 416–417
interpersonal, 406–411
nature of, 404–405
organizational, 412–415
to reduce resistance to change, 158, 159E6-5
Communication issues, 417–421
customer service and, 419–420
e-mail, 416, 417–418
employee input, 420, 420E15-5
ethical communication, 420–421
Internet, 417–418
knowledge resources, 418–419
Communication networks *The variety of patterns of vertical and horizontal flows of organizational communication,* 413–414
Communication process *The seven elements involved in transferring meaning from one person to another,* 406, 407
Communities of practice *Groups of people who share a concern, a set of problems, or a passion about a topic, and who deepen their knowledge and expertise in that area by interacting on an ongoing basis,* 295, 295E11-4
Compensation and benefits, 326, 327–328
determining factors for, 327, 328E12-11
family-friendly, 330
laws for, 316E12-3
skill-based pay, 327
types of, 326
variable pay systems, 327–328
Competence, 473
Competitive advantage *What sets an organization apart; its distinctive edge,* 232, 233
in entrepreneurial ventures, 542
five forces model and, 233, 233E9-5
quality as, 232
sustaining, 232
Competitive strategy *An organizational strategy for how an organization will compete in its business(es),* 231
choosing, 233–234
competitive advantage in, 231–232
cost leadership, 233
differentiation, 234
focus, 234
functional, 234
Competitor intelligence *Environmental scanning activity by which organizations gather information about competitors,* 214–215, 249
Competitors, in entrepreneurial ventures, 544–545
Complainers, 342
Compressed workweek *A workweek where employees work longer hours per day but fewer days per week,* 299
Computer conference, 408E15-2
Computerization, 156
Computer software, decision-making, 187
Concentration, 229
Conceptual skills *The ability to think and to conceptualize about abstract and complex situations,* 13
Concurrent control *Control that takes place while a work activity is in progress,* 494, 495, 503E18-12
Confirmation bias, 191, 191E7-11
Conflict *Perceived incompatible differences that result in interference or opposition,* 354, 355
functional *vs.* dysfunctional, 354–355
future, 356
group performance and, 355E13-7
human relations view of, 354, 355
management, 354–356, 356E13-8
views regarding, 354
Conformity
in global work teams, 362
in group structure, 350–351
Conscientiousness, in Big Five Model, 382
Consideration *The extent to which a leader has work relationships characterized by mutual trust and respect for group members' ideas and feelings,* 463
Consistency, 473
Consolidated Omnibus Reconciliation Act (COBRA), 316E12-3
Contingency approach *A management approach that recognizes organizations as different, which means they face different situations (contingencies) and require different ways of managing,* 37, 38
contingency variables in, 38EMH-8
Contingency planning, 259–260

Contingent workers *Temporary, freelance, or contract workers whose employment is contingent upon demand for their services,* 299–300
motivating, 448–449
Control
balanced scorecard and, 496–497
benchmarking and, 498, 498E18-10
concurrent, 494, 495
contemporary issues in, 499–505
corporate governance and, 504–505
cross-cultural differences and, 499
customer interactions and, 503–504
feedback, 494–495
feedforward, 494
financial, 495–496
information, 497–498
types of, 494E18-8
workplace concerns and, 499–503
Controlling *The process of monitoring, comparing, and correcting work performance,* 9, 486–487
cultural effects on, 57E2-9
in entrepreneurial ventures, 555–559
importance of, 487
information, 497–498
managerial decisions in, 491, 491E18-6
for organizational performance, 491–493
planning-controlling link, 487E18-2
for quality, 527–528
Control process *A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards,* 488, 488E18-2, 489
measuring actual performance, 488, 489E18-3
range of variation in, 489–490, 489–490E18-4–5
taking managerial action, 490–491
Conventional level of moral development, 130, 131E5-4
Co-optation, to reduce resistance to change, 159, 159E6-5
Coordination in value chain management, 522
Corporate philanthropy, 141–142
Core competencies *The organization's major value-creating capabilities that determine its competitive weapons,* 228, 229
Corporate governance *The system used to govern a corporation so that the interests of corporate owners are protected,* 504–505
board of directors, role of, 505
financial reporting and audit committee, 505
Corporate strategy *An organizational strategy that determines what businesses a company is in or wants to be in, and what it wants to do with those businesses,* 228
BCG matrix and, 230–231, 231E9-4
growth, 229–230
managing, 230–231
renewal, 230, 231
stability, 230, 231
types of, 229–230, 229E9-3
Corporation *A legal business entity that is separate from its owners and managers,* 548EA-4, 549
Cost leadership strategy, 233
Counseling, 163
Creativity *The ability to combine ideas in a unique way or to make unusual associations between ideas,* 166, 167
Credibility *The degree to which followers perceive someone as honest, competent, and able to inspire,* 473
Critical incident performance appraisal, 327E12-10
Critical path *The longest sequence of activities in a PERT network,* 254, 255
Cross-functional team *A work team composed of individuals from various functional specialties,* 268, 269, 294–295, 347E13-1, 359
Cultural fit in career path, 340–341
Cultural intelligence *Cultural awareness and sensitivity skill,* 85
Culture. *See* National culture; Organizational culture
Customer interactions, controlling, 503–504
Customer-responsive culture, creating, 58, 59E2-10
Customer service
communication in, 419–420
Internet and, 530
lean organization and, 529, 530
management, 14–16

D

Decentralization *The degree to which lower-level employees provide input or actually make decisions,* 272, 273
today's view of, 272–273
vs. centralization, 272E10-7
Decisional roles *Managerial roles that revolve around making choices,* 10, 11
Decision criteria *Criteria that define what's important or relevant to resolving a problem,* 180, 181
Decision making
biases and errors in, 190–191, 191E7-11
bounded rationality and, 183–184
conditions (*See* Decision-making conditions)
effective, 192–194
evidence-based management and, 185
group structure and, 353–354, 354E13-6
intuitive, 184–185, 184E7-6
linear-nonlinear thinking style profile, 190
by managers, 182–183, 182E7-5
overview of, 192, 192E7-12
process (*See* Decision-making process)
rational, 183
software, 187
styles, 190–192
Decision-making conditions, 187–190
certainty, 187
expected value, 188, 188E7-8
payoff matrix, 188–189, 189E7-9
regret matrix, 189, 190E7-10
risk, 187–188
uncertainty, 188–189
Decision-making process, 178–182, 179E7-1
analyzing alternatives, 181, 181E7-4
developing alternatives, 181, 181E7-3
effective, in today's world, 193
evaluating decision effectiveness, 182
identifying decision criteria, 180, 180E7-2
identifying problems, 179–180
implementing alternatives, 182
selecting alternatives, 182
weighted criteria in, 180
Decisions *A choice among two or more alternatives,* 178, 179
made by managers, 182E7-5
types of, 185–186, 187E7-7
See also Decision making
Decoding *Retranslating a sender's message,* 406, 407
Decruitment *Reducing an organization's workforce,* 319–320
options, 320E12-4
Deep-level diversity *Differences in values, personality, and work preferences,* 100, 101
Defensiveness, in interpersonal communication, 410–411
Delegating, in SLT, 466
Democratic style *A leader who involves employees in decision making, delegates authority, and uses feedback as an opportunity for coaching employees,* 462, 463
Demographics
of entrepreneurial ventures, 542
in HRM trends, 317–318
of organizational environment, 47–48
Demographic shift, 7
Departmentalization *The basis by which jobs are grouped together,* 266–267
forms of, 267E10-3
today's view of, 266
Diagonal communication *Communication that cuts across work areas and organizational levels,* 413
Differentiation strategy, 234
Difficult people, getting along with, 342
Directional plans *Plans that are flexible and set out general guidelines,* 207
Directive leader, 467
Discretion, managerial, 45E2-1
Distributive justice *Perceived fairness of the amount and allocation of rewards among individuals,* 442, 443
Diversity in workforce. *See* Workforce diversity
Diversity skills training *Specialized training to educate employees about the importance of diversity and teach them skills for working in a diverse workplace,* 115
Divisional structure *An organizational structure made up of separate, semiautonomous units or divisions,* 278, 279
strengths and weaknesses of, 277E10-10
Division of labor (job specialization) *The breakdown of jobs into narrow and repetitive tasks,* 28, 38
Downsizing *The planned elimination of jobs in an organization,* 328–329
tips for, 329E12-12
Downward communication *Communication that flows downward from a manager to employees,* 412, 413
Dynamic environment, planning in, 213
Dysfunctional conflicts *Conflicts that prevent a group from achieving its goals,* 354–355

E

East African Community (EAC), 76
E-business strategies, 237
Economic environment, global management in, 80–81
Education, to reduce resistance to change, 158, 159E6-5

Effectiveness *Doing the right things, or completing activities so that organizational goals are attained,* 8, 9
Efficiency *Doing things right, or getting the most output from the least amount of inputs,* 8, 9
Effort-performance linkage, 442
Ego strength *A personality measure of the strength of a person's convictions,* 131
E-mail
customer service and, 419
diagonal communication and, 413
filtering, 409
information overload and, 409–410
issues with, 417–418
vs. other communication methods, 408E15-2
workplace privacy and, 500
Emotional intelligence (EI) *The ability to notice and to manage emotional cues and information,* 386, 387
Emotions *Intense feelings that are directed at someone or something,* 385
emotional stability, in Big Five Model, 382
in interpersonal communication, 409, 411
Empathy, in EI, 386
Employee assistance programs (EAPs), 503E18-12
Employee empowerment *Giving employees more authority (power) to make decisions,* 273
entrepreneurs and, 553
Employee engagement *When employees are connected to, satisfied with, and enthusiastic about their jobs,* 377–378, 379
key factors in, 378E14-2
Employee Free Choice Act, 316
Employee productivity *A performance measure of both efficiency and effectiveness,* 373
Employee recognition programs *Personal attention and expressing interest, approval, and appreciation for a job well done,* 449–450
Employees
compensation and benefits for, 326, 327–328, 328E12-11
decruitment of, 319–320, 320E12-4
empowering, 474–475, 553
health care costs for, 332
human resource planning and, 318–319
input from, 420, 420E15-5
motivating, 430–451
orientation of, 323–324
pension plan costs for, 333
performance appraisal methods for, 326, 327E12-10
performance management systems for, 326
recruitment of, 319–320, 320E12-4, 551
retaining, 326–328, 551
selecting (*See* Selection)
skills and knowledge provided for, 323–325
training, 324–325
value chain management and, 523–524
Employee theft *Any unauthorized taking of company property by employees for their personal use,* 500–501, 501E18-11
Encoding *Converting a message into symbols,* 406, 407
Entrepreneur
as leader, 554–555
motivating employees through empowerment, 553
personality characteristics of, 552–553
Entrepreneurial ventures *Organizations that are pursuing opportunities, are characterized by innovative practices, and have growth and profitability as their main goals,* 537
changes and, stimulating and making, 551–552
competitive advantage and, 542
competitors and, 544–545
controlling issues in, 555–559
demographics and, 542
downturns in, managing, 557–558
employee recruitment in, 551
employee retention in, 551
ethics issues in, 539–540
exiting, 558
feasibility of, 543–545, 544EA-2
financing, 545EA-3
growth in, managing, 555–557, 556EA-5
HRM issues in, 550–551
ideas in, generating and evaluating, 543, 543EA-1, 544
innovation and, importance of continuing, 552
job creation and, 538
leading issues in, 552–555
opportunities in, identifying, 539–542
organizational design and structure, 550
organizing issues in, 547–550
personal life choices and challenges in, 558–559
planning, 539, 546–547 (*See also* Business plan)
process of, 538–539
social responsibility in, 539–540
valuation techniques in, 558
Entrepreneurship *The process of starting new businesses, generally in response to opportunities,* 537
global, 538
importance of, 538
Environmental assessment, techniques for, 248–251
benchmarking, 251, 252EMP-2
environmental scanning, 248–249
forecasting, 249–251, 250EMP-1
Environmental complexity *The number of components in an organization's environment and the extent of the organization's knowledge about those components,* 49–50
Environmental scanning *The screening of large amounts of information to anticipate and interpret changes in the environment,* 214–215, 248, 249
Environmental uncertainty *The degree of change and complexity in an organization's environment,* 49–50
assessing, 49–50
matrix, 49E2-3
organizational structure and, 276–277
Equal employment opportunity and discrimination laws, 316E12-3
Equal Pay Act, 316E12-3
Equity theory *The theory that an employee compares his or her job's input–outcomes ratio with that of relevant others and then corrects any inequity,* 441–442, 442E16-8
Escalation of commitment *An increased commitment to a previous decision despite evidence it may have been wrong,* 184, 185
Esteem needs *A person's needs for internal factors such as self-respect, autonomy, and achievement, and external factors such as status, recognition, and attention,* 432, 433
Ethical behavior
determining factors of, 130–133, 130E5-3
employee selection and, 135
encouraging, 135–139
individual characteristics and, 131
issue intensity and, 133, 133E5-5
job goals and performance appraisal, 137–138
lapses in, managing, 139–140
leadership and, 137, 140, 140E5-9
managers and, 129–135
moral development and, 130–131, 131E5-4
organization's culture and, 132–133
protective mechanisms and, 139
social audits and, independent, 139
social irresponsibility and, 139–140
structural variables and, 131–132
whistle-blowers and, 140
Ethical communication *Communication that includes all relevant information, is true in every sense, and is not deceptive in any way,* 420–421
Ethics *Principles, values, and beliefs that define what is right and wrong behavior,* 130, 131
codes of, 135–136, 136E5-7
in competitor intelligence, 215, 249
dilemmas, process for addressing, 137E5-8
in entrepreneurial ventures, 539–540
international context of, 133–135
in training, 138
See also Ethical behavior
Ethics and Compliance Officer Association, 139
Ethnocentric attitude *The parochialistic belief that the best work approaches and practices are those of the home country,* 71
Euro *A single common European currency,* 73–74
European Union (EU) *A union of 27 European nations created as a unified economic and trade entity,* 72–74, 73E3-1
Events *End points that represent the completion of major activities in a PERT network,* 254, 255
Evidence-based management (EBMgt) *The systematic use of the best available evidence to improve management practice,* 185
Expectancy theory *The theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual,* 442–443, 442E16-9
Expected value, 188, 188E7-8
Expert power *Power that's based on expertise, special skills, or knowledge,* 473
Exporting *Making products domestically and selling them abroad,* 79
External analysis, in strategic management process, 227
External collaboration, 295–297
open innovation and, 296, 296E11-5
strategic partnerships and, 296–297
External environment *Those factors and forces outside the organization that affect its performance,* 46–47

demographic environment and, 47–48
economic environment and, 47
environmental uncertainty and, 49–50, 49E2-3
jobs and employment and, 48
managers and, effect on, 48–51
stakeholder relationships and, 50–51
Extinction, 392
Extraversion
in Big Five Model, 382
in MBTI, 381

F

Facebook, 227, 339
Face-to-face communication, 293, 408E15-2, 410, 415, 418
Facilitation, to reduce resistance to change, 159, 159E6-5
Family and Medical Leave Act, 316E12-3
Family-friendly benefits Benefits that accommodate employees' needs for work–life balance, 330
Fax, 408E15-2, 409, 416
Fayol's 14 principles of management, 31, 31EMH-3
Feasibility, of entrepreneurial ventures, 543–545, 544EA-2
competitors and, 544–545
feasibility study and, 544, 544EA-2, 545
financing options, 545, 545EA-3
generating and evaluating ideas, 543, 543EA-1
Feasibility study *An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility,* 544, 544EA-2, 545
Feedback *The degree to which carrying out work activities required by a job results in the individual's obtaining direct and clear information about his or her performance effectiveness,* 439
in interpersonal communication, 409–411
Feedback control *Control that takes place after a work activity is done,* 494–495, 503E18-12
Feedforward control *Control that takes place before a work activity is done,* 494–495, 503E18-12
Feeling types, in MBTI, 381
Fiedler contingency model *A leadership theory proposing that effective group performance depends upon the proper match between a leader's style and the degree to which the situation allows the leader to control and influence,* 464–466, 465E17-3
Filtering *The deliberate manipulation of information to make it appear more favorable to the receiver,* 409
Financial control, 495–496
ratios, 496E18-9
Financial goals, 206
Financial reporting, 505
Financing for entrepreneurial ventures, 545EA-3
First-line managers *Managers at the lowest level of management who manage the work of nonmanagerial employees,* 6, 7
First mover *An organization that's first to bring a product innovation to the market or to use a new process innovation,* 238
advantages and disadvantages, 239E9-8
Five forces model, 233, 233E9-5
Flexible work arrangements, 297–299
compressed workweeks, 299
flextime, 299
future, 292
job sharing, 299
telecommuting, 297–298
Flextime (flexible work hours) *A scheduling system in which employees are required to work a specific number of hours a week but are free to vary those hours within certain limits,* 299
Focus strategy, 234
Follower readiness, in SLT, 466–467
Forecasting
effectiveness, 250–251
techniques, 250, 250EMP-1
Forecasts *Predictions of outcome,* 249
Foreign Corrupt Practices Act (FCPA), 134
Foreign subsidiary *Directly investing in a foreign country by setting up a separate and independent production facility or office,* 80, 81
Formal communication *Communication that takes place within prescribed organizational work arrangements,* 412, 413
Formal group, 346, 347E13-1
Formalization *How standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures,* 273
Formal planning, 204
See also Planning
Formal planning department *A group of planning specialists whose sole responsibility is helping to write organizational plans,* 212, 213
Formal presentations, 408E15-2
Forming stage *The first stage of group development in which people join the group and then define the group's purpose, structure, and leadership,* 347
Framing bias, 191, 191E7-11
Franchising *An organization gives another organization the right to use its name and operating methods,* 79
Free market economy *An economic system in which resources are primarily owned and controlled by the private sector,* 81
Free Trade Area of the Americas (FTAA), 74–75
Functional conflicts *Conflicts that support a group's goals and improve its performance,* 354, 355
Functional strategy *The strategies used by an organization's various functional departments to support the competitive strategy,* 234, 235
Functional structure *An organizational design that groups together similar or related occupational specialties,* 278, 279
strengths and weaknesses of, 277E10-10
Fundamental attribution error *The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behavior of others,* 389

G

Gantt chart *A scheduling chart developed by Henry Gantt that shows actual and planned output over a period of time,* 253–254, 253EMP-5
Gender
differentiation, in national cultures, 84, 84E3-6
in workforce diversity, 106
General administrative theory *An approach to management that focuses on describing what managers do and what constitutes good management practice,* 31, 38
manager's use of, 32
General Agreement on Tariffs and Trade (GATT), 76
General partnership *A form of legal organization in which two or more business owners share the management and risk of the business,* 548EA-4, 549
Generational differences in OB, 392–394
Generation Y and, 393–394, 393E14-8
managerial challenges in, 394
Generation X, 106, 318, 393
Generation Y (or Millennials), 48, 106, 318, 393
organizational behavior and, 393–394, 393E14-8
Geocentric attitude *A world-oriented view that focuses on using the best approaches and people from around the globe,* 72, 73
German laws pertaining to HRM, 317
Global 100 list, 129
Global Compact, 134–135, 134E5-6
Global company (MNC) *An MNC that centralizes management and other decisions in the home country,* 78, 79
Global entrepreneurship, 538
Global environment
business conducted in, 77–80
country of ownership for familiar products and, 70–71
HRM laws, 316–317
international organizations in, 78–80
perspective on, 71–72
trade mechanisms in, 76–77
trading alliances in, regional, 72–76
understanding, 72–77
See also Global management; National culture
Global Leadership and Organizational Behavior Effectiveness (GLOBE) *The research program that studies cross-cultural leadership behaviors,* 82, 83
cross-cultural leadership and, 475–476
dimensions of, 82, 83–84, 84E3-6
Global management, 80–86
in cultural environment, 81–84
cultural intelligence needed for, 85
in economic environment, 80–81
global mind-set needed for, 85, 86E3-7
openness and, 84, 85
in political/legal environment, 80
Global mind-set *Attributes that allow a leader to be effective in cross-cultural environments,* 85
components of, 86E3-7
Global positioning systems (GPS), 526
Global Reporting Initiative (GRI), 129
Global scanning, 249
Global sourcing *Purchasing materials or labor from around the world wherever it is cheapest,* 78–79
Global work teams, 361–362
drawbacks *vs.* benefits in, 361E13-11
group member resources in, 361–362
manager's role in, 362
processes in, 362
structure of, 362
Goals (objectives) *Desired outcomes or targets,* 205
ethical behavior and, 137–138
management by objectives and, 209–210, 210E8-3
of organizational behavior, 373–374
quality, 528–529
types of, 206
well-written, characteristics of, 210, 210E8-4

Goal setting
approaches to, 208–209, 209E8-2
means-ends chain and, 209
steps in, 210–211
traditional, 208–209, 209E8-2
Goal-setting theory *The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals,* 435–437, 437E16-5
Grapevine *The informal organizational communication network,* 414, 415
Graphic rating scale performance appraisal, 327E12-10
Graying workforce, 47, 105–106, 318
Great Recession, 47
Green management *Managers consider the impact of their organization on the natural environment,* 127
actions, evaluating, 129
approaches to going green, 127–128, 128E5-2
Group *Two or more interacting and interdependent individuals who come together to achieve specific goals,* 346, 347
development (*See* Group development, stages of)
external conditions imposed on, 348
formal, 346, 347E13-1
member responses, 349
performance and satisfaction in, 348, 349E13-3
structure (*See* Group structure)
tasks, 356–357
turning into effective team, 357–361
vs. work team, 358E13-9
See also Work teams
Group cohesiveness *The degree to which group members are attracted to one another and share the group's goals,* 352, 353
in global work teams, 362
productivity and, 352E13-5
Group development, stages of, 346–348, 347E13-2
adjourning, 348
forming, 347
norming, 347
performing, 348
storming, 347
Group structure, 349–355
cohesiveness of, 352, 352E13-5
conflict management and, 354–356, 355E13-7, 356E13-8
conformity in, 350–351
decision making and, 353–354, 354E13-6
norms in, 350
processes in, 352–353
roles in, 349–350
size of, 352
status systems in, 351–352
Groupthink *When a group exerts extensive pressure on an individual to align his or her opinion with others' opinions,* 351
Growth strategy *A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es),* 229–230

H

Halo effect *A general impression of an individual based on a single characteristic,* 389–390
Harvesting *Exiting a venture when an entrepreneur hopes to capitalize financially on the investment in the venture,* 558, 559
Hawthorne Studies *A series of studies during the 1920s and 1930s that provided new insights into individual and group behavior,* 33–34, 38
Health care costs, 332
Health Care Reform Act, 316
Health Insurance Portability and Accountability Act, 316E12-3
Health laws, 316E12-3
Heuristics *Rules of thumb that managers use to simplify decision making,* 190, 191
Hierarchy of needs theory *Maslow's theory that human needs—physiological, safety, social, esteem, and self-actualization—form a sort of hierarchy,* 431–432, 432E16-1
High-involvement work practices *Work practices designed to elicit greater input or involvement from workers,* 441
High-high leader *A leader high in both initiating structure and consideration behaviors,* 463
Highly reliable organizations (HROs), 193
High-performance work practices *Work practices that lead to both high individual and high organizational performance,* 312–313, 313E12-1
Hindsight bias, 191, 191E7-11
Hispanic-Americans in workforce, 47
Hofstede's five dimensions of national culture, 82, 83E3-5
Holland's personality-job fit, 386–387, 386E14-5
Horizontal integration, 229
Hostile individuals, 342
Hotlines
for employee theft, 501E18-11
ethics, 140
vs. other forms of communication, 408E15-2
for workplace violence, 503E18-12
Human relations view of conflict *The view that conflict is a natural and inevitable outcome in any group,* 354, 355
Human resource management (HRM), 311–333
contemporary issues in, 328–333
costs, 332–333
demographic trends in, 317–318
downsizing, 328–329, 329E12-12
economy's effect on, 314
in entrepreneurial ventures, 550–551
high-performance work practices and, 312–313, 313E12-1
HR costs, 332–333
importance of, 312–313
labor unions and, 314–315
legal environment of, 315–317, 316E12-3
orientation and, 323–324
process, 312–318
sexual harassment, 329–330
value chain management in, 523–524
work-life balance, 330–332
See also Employees
Human resource planning *Ensuring that the organization has the right number and kinds of capable people in the right places and at the right times,* 318–319
current assessment of, 319
future HR needs, meeting, 319
Human resource variables in innovation, 167E6-10, 169
Human skills *The ability to work well with other people individually and in a group,* 12–13
Hygiene factors *Factors that eliminate job dissatisfaction, but don't motivate,* 434, 435

I

Idea champion *Individuals who actively and enthusiastically support new ideas, build support, overcome resistance, and ensure that innovations are implemented,* 169
Ideas in entrepreneurial ventures, 543, 543EA-1, 544
Immediate corrective action *Corrective action that corrects problems at once to get performance back on track,* 490, 491
Immediate gratification bias, 190, 191E7-11
Importing *Acquiring products made abroad and selling them domestically,* 79
Incongruous, entrepreneurial ventures and, 541
Individualism, in national cultures, 83E3-5
Industrial revolution *A period during the late eighteenth century when machine power was substituted for human power, making it more economical to manufacture goods in factories than at home,* 28, 38
Informal communication *Communication that is not defined by the organization's structural hierarchy,* 412, 413
Informational roles *Managerial roles that involve collecting, receiving, and disseminating information,* 10, 11
Information controls, 497–498
Information overload *When information exceeds our processing capacity,* 409–410
Information technology (IT), 416–417
chain of command and, 271
future of, 416
managerial communication and, 416–417
networked systems, 416
organizational effects of, 417
wireless capabilities, 417
See also E-mail; Internet
Initial public offering (IPO) *The first public registration and sale of a company's stock,* 545
Initiating structure *The extent to which a leader defines his or her role and the roles of group members in attaining goals,* 463
Innovation *Taking creative ideas and turning them into useful products or work methods,* 166, 167
creativity *vs.,* 166
cultural variables in, 167E6-10, 168–169
culture and, creating, 58
in entrepreneurial ventures, 552
first mover, 238–239, 239E9-8
human resource variables in, 167E6-10, 169
management and, 16
stimulating, 165–169
in strategic management, 238–239, 239E9-8
structural variables in, 166–168, 167E6-10
world's most innovative companies, 166E6-9
Instrumentality, 443
Integrity, 473
Intellectual abilities, workforce diversity and, 110
Intellectual capital, in global mind-set, 86E3-7
Intellectual property *Proprietary information that's critical to an organization's efficient and effective functioning and competitiveness,* 525
Interactionist view of conflict *The view that some conflict is necessary for a group to perform effectively,* 354, 355
Internal analysis, in strategic management process, 228
Internal collaboration, 294–295
communities of practice and, 295, 295E11-4
cross-functional teams and, 294
task forces and, 294–295

International Monetary Fund (IMF) *An organization of 185 countries that promotes international monetary cooperation and provides advice, loans, and technical assistance,* 77
International Organization for Standardization (ISO), 129
International organizations, 78–80
for evaluating green management actions, 129
going global, approaches to, 78–80, 79E3-3
types of, 78
Internet
challenge of openness and, 85
competitive advantage and, 540–541, 542
competitor intelligence and, 249
customer dialogue and, 530
disabled workers and, 108E4-6
e-business strategies, 237
embedded Web servers and, 526
Generation Y workers and, 398
legal issues and, 418, 525
managing communication and, 417–418
mobile computing and, 301
networked systems and, 416
personal interaction and, 418
as recruiting source, 320E12-4
security issues and, 418, 525
telecommuting and, 297–298
training methods, 325E12-9
wireless capabilities and, 417
workplace privacy and, 500
Interpersonal communication *Communication between two or more people,* 405
barriers to, 409–411, 411E15-3
effective, 409–411
methods of, 406–409, 408E15-2
process, 406E15-1
Interpersonal demands, 162
Interpersonal roles *Managerial roles that involve people and other duties that are ceremonial and symbolic in nature,* 10, 11
Intranets, 416, 529
Introverted types, in MBTI, 381
Intuitive decision making *Making decisions on the basis of experience, feelings, and accumulated judgment,* 184–185
Intuitive types, in MBTI, 381
ISO 9000 *A series of international quality management standards that set uniform guidelines for processes to ensure products conform to customer requirements,* 129, 528, 529
ISO 14000, 129
Issue intensity, 133, 133E5-5

J

Jargon *Specialized terminology or technical language that members of a group use to communicate among themselves,* 410, 411
Job analysis *An assessment that defines jobs and the behaviors necessary to perform them,* 318
Job characteristics model (JCM) *A framework for analyzing and designing jobs that identifies five primary core job dimensions, their interrelationships, and their impact on outcomes,* 438–440, 439E16-6
Job creation, in entrepreneurship ventures, 538
Job depth *The degree of control employees have over their work,* 438, 439
Job description *A written statement that describes a job,* 318
Job design *The way tasks are combined to form complete jobs,* 438, 439
Job enlargement *The horizontal expansion of a job by increasing job scope,* 438, 439
Job enrichment *The vertical expansion of a job by adding planning and evaluating responsibilities,* 438, 439
Job fulfillment, 342
Job goals, ethical behavior and, 137–138
Job involvement *The degree to which an employee identifies with his or her job, actively participates in it, and considers his or her job performance to be important to self-worth,* 377
organizational commitment and, 377
Job satisfaction *An employee's general attitude toward his or her job,* 374, 375
absenteeism and, 375–376
customer satisfaction and, 376
OCB and, 376–377
productivity and, 375
statistics on, 375
turnover and, 376
workplace behavior and, 377
Job scope *The number of different tasks required in a job and the frequency with which those tasks are repeated,* 438, 439
Job seniority, workforce diversity and, 110
Job sharing *The practice of having two or more people split a full-time job,* 299
Job specification *A written statement of the minimum qualifications that a person must possess to perform a given job successfully,* 318
Joint venture *A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose,* 80, 81
Judging others, shortcuts used in, 389–390
Judging types, in MBTI, 381

K

Karoshi (Japanese stress phenomenon), 162–163
Know-it-all experts, 342
Knowledge resources
communication issues in, 418–419
entrepreneurial ventures and, 542

L

Labor union *An organization that represents workers and seeks to protect their interests through collective bargaining,* 314
HRM and, 314–315, 316
Laissez-faire style *A leader who lets the group make decisions and complete the work in whatever way it sees fit,* 462, 463
Language
in interpersonal communication, 410–411
to teach organizational culture, 56
Lateral communication *Communication that takes place among any employees on the same organizational level,* 413
Leader *Someone who can influence others and who has managerial authority,* 460, 461
across cultures, 475–476, 475E17-7
charismatic, 470–471
employee oriented, 463
empowerment of, 474–475
entrepreneur as, 554–555
power over, managing, 475–476
production oriented, 463
relationship oriented, 465
substitute for, 476
task oriented, 465
training, 476
trust of, developing, 473–474
visionary, 471
Leader-member exchange theory (LMX) *The leadership theory that says leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction,* 469
Leader-member relations *One of Fiedler's situational contingencies that describes the degree of confidence, trust, and respect employees had for their leader,* 465
Leadership *A process of influencing a group to achieve goals,* 460, 461
charismatic, 470–471
contemporary views of, 469–472
cross-cultural leadership, 475–476, 475E17-7
developing trust, 473–474, 474E17-6
effective, 476
empowering employees, 474–475
ethical behavior and, 137, 140, 140E5-9
leader-member exchange theory, 469
managing power, 472–473
as stressor, 162
team leadership, 471–472, 472E17-5
transformational-transactional leadership, 469–470
in twenty-first century, 472–476
value chain management in, 523
visionary, 471
Leadership theories, 460–469
behavioral, 462–464, 462E17-2
contemporary views of, 469–472
contingency, 464–469
early, 460–464
Fiedler contingency model, 464–466, 465E17-3
path-goal model, 467–469, 468E17-4
situational leadership theory, 466–467
trait, 461, 461E17-1
Leading *Management function that involves working with and through people to accomplish organizational goals,* 9
cultural effects on, 57E2-9
in entrepreneurial ventures, 552–555
for quality, 527
Lean organization *An organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective,* 530
Learning *Any relatively permanent change in behavior that occurs as a result of experience,* 390, 391
implications for managers and, 392
operant conditioning and, 390–391
shaping behavior and, 391–392
social learning and, 391
Learning organization *An organization that has developed the capacity to continuously learn, adapt, and change,* 292–293
advantages/disadvantages of, 289E11-1

Least-preferred coworker (LPC) questionnaire *A questionnaire that measures whether a leader is task or relationship oriented,* 464–465
Legal (or light green) approach to going green, 128
Legal aspects of workforce diversity, 113–114, 113E4-8
Legal environment of HRM, 80, 315–317, 316E12-3
affirmative action and, 315
in Australia, 317
in Canada, 316–317
in Germany, 317
major HRM laws in, 316E12-3
in Mexico, 317
in U.S., 316
Legal forms of organizations, 547–550, 548EA-4
Legal issues in Internet usage, 418, 525
Legitimate power *The power a leader has as a result of his or her position in the organization,* 472, 473
Lewin's three-step change process, 153, 153E6-2
Licensing *An organization gives another organization the right to make or sell its products using its technology or product specifications,* 79
Life-long learning, 156
Lilly Ledbetter Fair Pay Act, 316E12-3
Limited liability company (LLC) *A form of legal organization that's a hybrid between a partnership and a corporation,* 548EA-4, 549
Limited liability partnership (LLP) *A form of legal organization consisting of general partner(s) and limited liability partner(s),* 548EA-4, 549
Linear programming *A mathematical technique that solves resource allocation problems,* 257
example of, 257–258, 257EMP-11
graphical solution to, 258EMP-12
Linear thinking style *Decision style characterized by a person's preference for using external data and facts and processing this information through rational, logical thinking,* 190, 191
Line authority *Authority that entitles a manager to direct the work of an employee,* 269
chain of command and, 269E10-4
vs. staff authority, 270, 270E10-5
Load chart *A modified Gantt chart that schedules capacity by entire departments or specific resources,* 254, 254EMP-6, 255
Locus of control *The degree to which people believe they are masters of their own fate,* 131, 382, 383
Long-term plans *Plans with a time frame beyond three years,* 207
Low-skilled employees, motivating, 449
Loyalty, 473

M

Machiavellianism *A measure of the degree to which people are pragmatic, maintain emotional distance, and believe that ends justify means,* 383
Management *Coordinating and overseeing the work activities of others so that their activities are completed efficiently and effectively,* 8, 9
approaches to, 28–29, 29EMH-1 (*See also* Management theories)
career opportunities in, 340
early, 28
efficiency and effectiveness of, 8, 8E1-3
functions of, 8–10, 9E1-4
in global environment (*See* Global management)
levels of, 6, 6E1-1
omnipotent view of, 44–45
operations, 516–530
of organizational change, contemporary issues in, 159–165
reality of work and, 18
skills, 12–13, 12E1-6, 13E1-7
symbolic view of, 45
of teams, 345–364
universality of, 17–18, 17E1-9
value chain, 519–525
workforce diversity and, 100E4-2, 101, 110–112, 114
Management by objectives (MBO) *A process of setting mutually agreed-upon goals and using those goals to evaluate employee performance,* 209–210
steps in, 210E8-3
Management by walking around *A term used to describe when a manager is out in the work area interacting directly with employees,* 494, 495, 503E18-12
Management information system (MIS) *A system used to provide management with needed information on a regular basis,* 497
Management science. *See* Quantitative approach
Management theories, 28–38, 29EMH-1
behavioral approach, 32–33
classical approach, 29–32
contemporary approaches, 36–38
contingency approach, 37–38, 38MH-8
quantitative approach, 34–35
systems approach, 36–37, 36EMH-7
Manager *Someone who coordinates and oversees the work of other people so that organizational goals can be accomplished,* 5–6
changing nature of, 13–14, 14E1-8
contemporary model of, 10–12
customer service and, 14–16
as decision maker, 182–194
discretion of, constraints on, 45E2-1
general administrative theory used by, 32
of global work teams, role in, 362
importance of, 4–5
innovation and, 16
organizational behavior used by, 34
organizational culture and, 56–57, 57E2-9
organizations and, 6–8
quantitative approach used by, 45
rewards of challenges of, 18–19, 19E1-10
scientific management used by, 30–31
sustainability and, 16
vs. nonmanagerial employees, 5
See also Management
Managerial grid *A two-dimensional grid for appraising leadership styles,* 462E17-2, 463–464
Managerial roles *Specific actions or behaviors expected of and exhibited by a manager,* 10–12
Manipulation, to reduce resistance to change, 159, 159E6-5
Manufacturing organizations *Organizations that produce physical goods,* 517
Market approach to going green, 128
Marshall Plan, 77
Mass customization *Providing customers with a product when, where, and how they want it,* 529–530
Mass production *The production of items in large batches,* 276, 277
Material artifacts and symbols used to teach organizational culture, 55–56
Matrix structure *An organizational structure that assigns specialists from different functional departments to work on one or more projects,* 290, 291
advantages/disadvantages of, 289E11-1
example of, 290E11-2
Maximax/maximin choice, 188–189, 189E7-9
MBO performance appraisal, 327E12-10
Means-ends chain *An integrated network of goals in which the accomplishment of goals at one level serves as the means for achieving the goals, or ends, at the next level,* 209
Mechanistic organization *An organizational design that's rigid and tightly controlled,* 274, 275
vs. organic organizations, 274E10-8
Memos, 408E15-2, 410
Mercosur, 75
Message *A purpose to be conveyed,* 406, 407
Mexican Federal Labor Law, 317
Mexican laws pertaining to HRM, 317
Microchronometer, 30
Middle managers *Managers between the lowest level and top levels of the organization who manage the work of first-line managers,* 6, 7
Minimum-wage employees, motivating, 449
Mintzberg's managerial roles, 10–12, 11E1-5
Mission *A statement of an organization's purpose,* 210, 211
identifying, 227, 227E9-2
Modular organization, 291–292
Monolingualism, 71
Moral development, stages of, 130–131, 131E5-4
Motivating jobs, designing, 438–441
job characteristics model for, 438–440
job enlargement for, 438–441
job enrichment for, 438
redesigning approaches to, 440–441, 440E17-7
Motivation *The process by which a person's efforts are energized, directed, and sustained toward attaining a goal,* 430–431
of contingent workers, 448–449
current issues in, 445–451
of diverse workforce, 448
economic circumstances and, 445
entrepreneurs and, 553
of low-skilled, minimum-wage employees, 449
managing cross-cultural challenges in, 445–447
motivating unique groups of workers, 447–449
of professionals, 448
rewards programs for, 449–451
Motivation, theories of, 431–437
equity theory, 441–442, 442E16-8
expectancy theory, 442–443, 442E16-9
goal-setting theory, 435–437, 437E16-5

Herzberg's two-factor theory, 433–434, 433E16-2, 434E16-3
integrating, 443–445, 444E16-10
Maslow's Hierarchy of Needs, 431–432, 432E16-1
McClelland's three-needs theory, 434–435, 435E16-4
McGregor's Theory X and Theory Y, 432–433
reinforcement theory, 437
Motivation-hygiene theory *The motivation theory that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction,* 433
Motivators *Factors that increase job satisfaction and motivation,* 434, 435
Motor reproduction processes, in social learning, 391
Multidomestic corporation *An MNC that decentralizes management and other decisions to the local country,* 78, 79
Multinational corporation (MNC) *A broad term that refers to any and all types of international companies that maintain operations in multiple countries,* 78, 79
Multiperson comparison performance appraisal, 327E12-10
Myers Briggs Type Indicator® (MBTI), 380–382, 381E14-4

N

National culture *The values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important,* 82, 83
American culture and, 82, 82E3-4
differences among countries and, 82
GLOBE framework for assessing, 82, 83–84, 84E3-6
Hofstede's five dimensions of, 82, 83E3-5
interpersonal communication in, 410–411
personality type differences in, 384
vs. organizational culture, 82
National Labor Relations Act, 316
Need for achievement (nAch) *The drive to succeed and excel in relation to a set of standards,* 434, 435
Need for affiliation (nAff) *The desire for friendly and close interpersonal relationships,* 434, 435
Need for power (nPow) *The need to make others behave in a way that they would not have behaved otherwise,* 434, 435
Negative behavior in workplace, 394–395
Negative reinforcement, 392
Network organization *An organization that uses its own employees to do some work activities and networks of outside suppliers to provide other needed product components or work processes,* 291–292
Noise *Any disturbances that interfere with the transmission, receipt, or feedback of a message,* 406, 407
Nonlinear thinking style *Decision style characterized by a person's preference for internal sources of information and processing this information with internal insights, feelings, and hunches,* 190, 191
Nonprogrammed decisions *Unique and nonrecurring decisions that require a custom-made solution,* 186, 187
vs. programmed decision, 187E7-7
Nonresponsive types, 342
Nonverbal communication *Communication transmitted without words,* 407
Nonverbal cues, 411
Norming stage *The third stage of group development, characterized by close relationships and cohesiveness,* 347, 349
Norms *Standards or expectations that are accepted and shared by a group's members,* 350, 351
North American Free Trade Agreement (NAFTA) *An agreement among the Mexican, Canadian, and U.S. governments in which barriers to trade have been eliminated,* 74–75
Not-for-profit organizations, 5, 17E1-9, 206, 226
Nurturing, in national cultures, 83E3-5

O

Obesity, workforce diversity and, 110
Occupational Safety and Health Act (OSHA), 316E12-3
Ohio State studies, 462E17-2, 463
Omnipotent view of management *The view that managers are directly responsible for an organization's success or failure,* 44–45
Open-book management *A motivational approach in which an organization's financial statements (the "books") are shared with all employees,* 449
Open innovation *Opening up the search for new ideas beyond the organization's boundaries and allowing innovations to easily transfer inward and outward,* 296, 297
benefits/drawbacks of, 296E11-5
Openness
to experience, in Big Five Model, 382
in global management, 84, 85
Internet challenges and, 85
trust and, 473
Open system *Systems that interact with their environment,* 36, 38
Open workplaces *Workplaces with few physical barriers and enclosures,* 415
Operant conditioning *A theory of learning that says behavior is a function of its consequences,* 390–391
Operating agreement *The document that outlines the provisions governing the way an LLC will conduct business,* 549
Operational plans *Plans that encompass a particular operational area of the organization,* 207
Operations management *The transformation process that converts resources into finished goods and services,* 516–517
importance of, 517
lean organization and, 529, 530
in manufacturing organizations, 517
mass customization and, 529–530
of productivity, 517–518
quality initiatives in, 527–528
role of, 516–517, 516E19-1
in service organizations, 517
strategic role of, 518–519
technology's role in, 526
Opportunities *Positive trends in the external environment,* 227
Organic organization *An organizational design that's highly adaptive and flexible,* 274, 275
vs. mechanistic organizations, 274E10-8
Organization *A deliberate arrangement of people to accomplish some specific purpose,* 6, 7
characteristics of, 6–7, 7E1-2
external environment and, 46–51, 46E2-2
managers and, 6–8
Organizational barriers in value chain management, 524–525
Organizational behavior (OB) *The study of the actions of people at work,* 32, 38, 372, 373
advocates of, early, 32–33, 33EMH-5
attitudes and, 378–380
contemporary issues in, 392–395
focus of, 372–373, 373E14-1
generational differences in, 392–394
goals of, 373–374
Hawthorne Studies and, 33–34
job satisfaction and, 375–378
learning and, 390–392
manager's use of, 34
negative, in workplace, 394–395
perception and, 387–390
personality and, 380–387
Organizational change *Any alteration of people, structure, or technology in an organization,* 155
change-capable organizations, 164–165, 165E6-8
contemporary issues in managing, 159–165
employee stress and, 161–164
in organizational culture, 159–160, 160E6-6
in people, 156–157
in structure, 155–156
successful, 164–165
in technology, 156
types of, 155–157, 155E6-3
See also Change process
Organizational chart *The visual representation of an organization's structure,* 265
Organizational citizenship behavior (OCB) *Discretionary behavior that is not part of an employee's formal job requirements, but which promotes the effective functioning of the organization,* 373–374
job satisfaction and, 376–377
Organizational commitment *The degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization,* 377
Organizational communication *All the patterns, networks, and systems of communication within an organization,* 405
direction of communication flow in, 412–413
formal *vs.* informal, 412
networks, 413–414
workplace design and, 414–415
Organizational culture *The shared values, principles, traditions, and ways of doing things that influence the way organizational members act,* 52, 53
changing, 159–160, 160E6-6
control in, adjusting for, 499
cross-cultural leadership in, 475–476, 475E17-7

customer-responsive, creating, 58, 59E2-10
decision making and, 193
dimensions of, 52E2-5
diversity in, 47
environment, global management in, 81–84 (*See also* National culture)
establishing and maintaining, 54–55, 54E2-8
ethical behavior in, 132–133
in global work teams, 362
graying workforce and, 47, 105–106, 318
innovation and, 58, 167E6-10, 168–169
language used to teach, 56
managerial decisions affected by, 56–57, 57E2-9
material artifacts and symbols used to teach, 55–56
openness and, challenges of, 85
rituals used to teach, 55
situational factors in change, understanding, 160
spirituality and, 58–60
stories used to teach, 55
strong *vs.* weak, 52–54, 53E2-7
value chain management in, 524
vs. national culture, 82

Organizational design *Creating or changing an organization's structure,* 265
adaptive, 287–301
basic, 263–278
boundaryless organization and, 290–292
collaboration in, 293–297
contemporary, 288–293, 289E11-1
contingent workforce and, 299–300
of entrepreneurial ventures, 550
flexible work arrangements and, 297–299
global structural issues in, managing, 301
learning organizations and, 292–293
matrix-project structures in, 290
mechanistic *vs.* organic organizations and, 273–274, 274E10-8
mobile computing and communication in, 300–301
of organizational structure, 264–273, 264–277
purposes of, 264–265, 265E10-1
team structures and, 288–290
today's challenges in, 300–301
traditional, 277–278, 277E10-10

Organizational development (OD) *Change methods that focus on people and the nature and quality of interpersonal work relationships,* 156–157
techniques, 157E6-4

Organizational effectiveness *A measure of how appropriate organizational goals are and how well those goals are being met,* 492, 493

Organizational leadership. *See* Leadership

Organizational performance *The accumulated results of all the organization's work activities,* 492, 493
controlling for, 491–493
industry and company rankings and, 492–493, 493E18-7
information controls and, 497
measures of, 492–493
organizational effectiveness and, 492
organizational productivity and, 492
tools for, 493–498
in workforce diversity, 100E4-2, 101

Organizational processes *The ways that organizational work is done,* 522–523

Organizational structure *The formal arrangement of jobs within an organization,* 265
centralization *vs.* decentralization and, 272–273, 272E10-7
chain of command and, 268–271
contingency factors affecting structural choice and, 274–277
departmentalization and, 266–268, 267E10-3
divisional, 278
environmental uncertainty and, 276–277
formalization and, 273
functional, 278
innovation variables and, 166–168, 167E6-10
simple, 277
size and, 275
span of control and, 271–272, 271E10-6
strategy and, 275
as stressor, 162
technology and, 275–276, 276E10-9
work specialization and, 265–266, 266E10-2

Organization for Economic Cooperation and Development (OECD) *An international economic organization that helps its 30 member countries achieve sustainable economic growth and employment,* 77
ethics in international context and, 135

Organization for European Economic Cooperation, 77

Organizations, legal forms of, 547–550, 548EA-4

Organizing *Management function that involves arranging and structuring work to accomplish the organization's goals,* 9, 265
cultural effects on, 57E2-9
in entrepreneurial ventures, 547–550
purposes of, 265E10-1
for quality, 527

Orientation *Introducing a new employee to his or her job and the organization,* 323, 324

Orientation, in national cultures
future, 83, 84E3-6
in GLOBE framework, 83, 84E3-6
in Hofstede's framework, 83E3-5
performance, 84, 84E3-6

Overconfidence bias, 190, 191E7-11

P

Parochialism *Viewing the world solely through your own perspectives leading to an inability to recognize differences between people,* 71

Participating
to reduce resistance to change, 159, 159E6-5
in SLT, 466

Participative leader, 467

PATH (Program for Appropriate Technology in Health), 141

Path-goal theory *A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization,* 467–469, 468E17-4

Patient Protection and Affordable Care Act, 316

Pay-for-performance programs *Variable compensation plans that pay employees on the basis of some performance measure,* 450–451

Payoff matrix, 188–189, 189E7-9

Pension plan costs, 333

People
changing, 156–157
as value chain management obstacle, 525

Perceived organizational support *Employees' general belief that their organization values their contribution and cares about their well-being,* 377

Perceiving types, in MBTI, 381

Perception *A process by which we give meaning to our environment by organizing and interpreting sensory impressions,* 387
attribution theory and, 388–389, 389E14-7
in entrepreneurial ventures, 542
factors that influence, 387, 388E14-6
implications for managers and, 390
judging others and, shortcuts used in, 389–390
stereotyping and, 387, 389

Performance *The end result of an activity,* 492, 493

Performance appraisal, 326
advantages/disadvantages of, 327E12-10
ethical behavior and, 137–138

Performance management system *Establishes performance standards that are used to evaluate employee performance,* 326, 327

Performance-reward linkage, 443

Performing stage *The fourth stage of group development when the group is fully functional and works on group task,* 348, 349

Personal bias in workforce diversity, 110–112, 111E4-7

Personal interaction, 418

Personality *The unique combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others,* 380, 381
Big Five Model and, 382
in different cultures, 384
emotional intelligence and, 386
emotions and, 384–385
of entrepreneur, 552–553
Holland's personality-job fit and, 386–387, 386E14-5
implications for managers, 386–387
locus of control and, 382
Machiavellianism and, 383
MBTI and, 380–382, 382E14-4
proactive, 384
resilience in, 384
risk-taking and, 383
self-esteem and, 383
self-monitoring and, 383
Type A and B, 384

PERT network *A flowchart diagram showing the sequence of activities needed to complete a project and the time or cost associated with each,* 252–253
developing, steps in, 254, 255EMP-7
example of, 255–256EMP-8–9

Physical attractiveness, workforce diversity and, 110

Physiological needs *A person's needs for food, drink, shelter, sexual satisfaction, and other physical needs,* 432, 433

Planned economy *An economic system in which all economic decisions are planned by a central government,* 81

Planning *Management function that involves defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities,* 9, 204, 205
approaches to, 212
competitor intelligence and, 214–215
contemporary, 212–215, 258–260
contingency factors in, 211–212
cultural effects on, 57E2-9
in dynamic environment, 213
in entrepreneurial ventures, 539, 546–547
environmental assessment in, 248–251
environmental scanning in, 214–215
issues in, 212–215
as management function, 9
organizational level and, 211, 211E8-5
performance and, 205
project management, 258–259, 259EMP-13
for quality, 527
reasons for, 205
for resource allocation, 251–258
scenario planning, 259–260
techniques, 248–260
Plans *Documents that outline how goals are going to be met,* 205
developing, 211–212
goals and, 208–211
types of, 207–208, 207E8-1
See also Business plan; Planning
Policy *A guideline for making decisions,* 186, 187
Political environment, in global management, 80
Polycentric attitude *The view that the managers in the host country know the best work approaches and practices for running their business,* 72, 73
Position power *One of Fiedler's situational contingencies that describes the degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases,* 465
Positive reinforcement, 391–392
Postal mail, 408E15-2
Post-Millennials (or iGeneration), 48
Power, managing, 472–473
Power distance, in national cultures
in GLOBE framework, 83, 84E3-6
in Hofstede's framework, 83E3-5
Preconventional level of moral development, 130, 131E5-4
Principals of management *Fundamental rules of management that could be applied in all organizational situations and taught in schools,* 31, 38
Fayol's, 31, 31EMH-3
Taylor's, 29–30, 30MH-2
Principled level of moral development, 130, 131E5-4
Principles of Scientific Management (Taylor), 29
Privacy Act, 316E12-3
Privacy in workplace, 500
Proactive personality *People who identify opportunities, show initiative, take action, and persevere until meaningful change occurs,* 384, 385, 553
Proactive perspective of work design *An approach to job design in which employees take the initiative to change how their work is performed,* 440–441
Problem *An obstacle that makes it difficult to achieve a desired goal or purpose,* 179
Problem-solving team *A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems,* 358, 359
Procedural justice *Perceived fairness of the process used to determine the distribution of rewards,* 442, 443
Procedure *A series of sequential steps used to respond to a well-structured problem,* 186, 187
Process conflict *Conflict over how work gets done,* 354, 355
Process production *The production of items in continuous processes,* 276, 277
Productivity *The amount of goods or services produced divided by the inputs needed to generate that output,* 492, 493
management of, 517–518
Product replenishment rates, 527
Professionals, motivating, 448
Programmed decision *A repetitive decision that can be handled by a routine approach,* 186, 187
vs. nonprogrammed decision, 187E7-7
Project *A one-time-only set of activities that has a definite beginning and ending point in time,* 258, 259
Project management *The task of getting a project's activities done on time, within budget, and according to specifications,* 258, 259
process, 258–259, 259EMP-13
project manager's role in, 259
Project structure *An organizational structure in which employees continuously work on projects,* 290, 291
advantages/disadvantages of, 289E11-1
Psychological capital, in global mind-set, 86E3-7
Publications, 408E15-2
Punishment, 392

Q

Qualitative forecasting *Forecasting that uses the judgment and opinions of knowledgeable individuals to predict outcomes,* 250, 250EMP-1, 251
Quality *The ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations,* 527
as competitive advantage, 232
controlling for, 527–528
goals, 528–529
initiatives in operations management, 527–528
organizing and leading for, 527
planning for, 527
Quantitative approach *The use of quantitative techniques to improve decision making,* 34, 38
manager's use of, 35
total quality management and, 35, 35EMH-6
Quantitative forecasting *Forecasting that applies a set of mathematical rules to a series of past data to predict outcome,* 250, 250EMP-1, 251

R

Racial/ethnic groups, 102, 102E4-3, 107, 318
Randomness bias, 191, 191E7-11
Range of variation *The acceptable parameters of variance between actual performance and the standard,* 489–490
Rational decision making *Describes choices that are logical and consistent and maximize value,* 183
Readiness *The extent to which people have the ability and willingness to accomplish a specific task,* 466–467
"Ready-aim-fire" culture, 57
Real goals (objectives) *Goals that an organization actually pursues, as defined by the actions of its members,* 206, 207
Realistic job preview (RJP) *A preview of a job that provides both positive and negative information about the job and the company,* 321–322
Recruitment *Locating, identifying, and attracting capable applicants,* 319–320
sources for, 320E12-4
Referent power *Power that arises because of a person's desirable resources or personal traits,* 473
Referents *The persons, systems, or selves against which individuals compare themselves to assess equity,* 442, 443
Regret matrix, 189, 190E7-10
Reinforcement processes, in social learning, 391
Reinforcement theory *The theory that behavior is a function of its consequences,* 437
Reinforcers *Consequences immediately following a behavior, which increase the probability that the behavior will be repeated,* 437
Relational perspective of work design *An approach to job design that focuses on how people's tasks and jobs are increasingly based on social relationships,* 440, 441
Relationship conflict *Conflict based on interpersonal relationships,* 354, 355
Religion, workforce diversity and, 109
Renewal strategy *A corporate strategy designed to address declining performance,* 230, 231
Representation bias, 191, 191E7-11
Resilience *An individual's ability to overcome challenges and turn them into opportunities,* 384, 385
Resource allocation, techniques for, 251–258
breakeven analysis, 256, 256EMP-10
budgeting, 252–253, 252EMP-3–4
linear programming, 257–258, 257–258EMP-11–12
scheduling, 253–256
Resources *The assets of the organization including financial, physical, human, intangible, and structural/cultural,* 228, 229, 251
Responsibility *The obligation or expectation to perform any assigned duties,* 270, 271
Retention processes, in social learning, 391
Retrenchment strategy, 230
Reward power *The power a leader has to give positive rewards,* 472, 473
Rewards programs, 449–451
employee recognition programs, 449–450
open-book management, 449
pay-for-performance programs, 450–451
Risk *A situation in which the decision maker is able to estimate the likelihood of certain outcomes,* 187–188

Risk-taking, 341, 383
Rituals used to teach organizational culture, 55
Role *Behavior patterns expected of someone occupying a given position in a social unit,* 349–350
Role ambiguity *When role expectations are not clearly understood,* 162, 163
Role conflicts *Work expectations that are hard to satisfy,* 162, 163
Role demands, 162
Role overload *Having more work to accomplish than time permits,* 162, 163
Rolling forecasts, 251
Rule *An explicit statement that tells managers what can or cannot be done,* 186, 187

S

Safety laws, 316E12-3
Safety needs *A person's needs for security and protection from physical and emotional harm,* 432, 433
Sarbanes-Oxley Act, 139, 505
Satisfice *Accept solutions that are "good enough,"* 183
Scenario *A consistent view of what the future is likely to be,* 259
  planning, 259–260
Scheduling *Detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed,* 253
  breakeven analysis used in, 256, 256EMP-10, 257
  Gantt chart used in, 253–254, 253EMP-5
  linear programming used in, 257–258, 257–258EMP-11–12
  load chart used in, 254, 254EMP-6, 255
  PERT network analysis used in, 254–256, 255–256EMP-7–9
Scientific management *An approach that involves using the scientific method to find the "one best way" for a job to be done,* 29, 38
  Fayol's 14 principles of management and, 31, 31EMH-3
  general administrative theory and, 31
  manager's use of, 30–31
  Taylor's scientific management principles and, 29–30, 30MH-2
  therbligs and, 30
  Weber's bureaucracy and, 31, 32MH-4
S corporation *A specialized type of corporation that has the regular characteristics of a C corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met,* 548EA-4, 549
Selection *Screening job applicants to ensure that the most appropriate candidates are hired,* 321
  decision outcomes, 321E12-6
  ethical behavior in, 135
  realistic job previews in, 323
  tools, 322, 322E12-7
  validity and reliability in, 322
Selective perception bias, 191, 191E7-11
Self-actualization of needs *A person's need to become what he or she is capable of becoming,* 432, 433
Self-awareness, in EI, 386
Self-efficacy *An individual's belief that he or she is capable of performing a task,* 436, 437
Self-esteem *An individual's degree of like or dislike for himself or herself,* 383
Self-managed work team *A type of work team that operates without a manager and is responsible for a complete work process or segment,* 347E13-1, 358, 359
Self-management, in EI, 386
Self-monitoring *A personality trait that measures the ability to adjust behavior to external situational factors,* 383
Self-motivation, in EI, 386
Self-serving bias *The tendency for individuals to attribute their own successes to internal factors while putting the blame for failures on external factors,* 389
  in decision-making, 191, 191E7-11
Selling, in SLT, 466
Sensing types, in MBTI, 381
Service organizations *Organizations that produce nonphysical products in the form of services,* 517
Service profit chain *The service sequence from employees to customers to profit,* 504, 505
Sexual harassment *Any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual's employment, performance, or work environment,* 329, 330
  workplace romances, 330
Shades of green approaches to going green, 128
Shaping behavior *The process of guiding learning in graduated steps using reinforcement or lack of reinforcement,* 391–392
Short-term plans *Plans covering one year or less,* 207
Silent types, 342
Simple structure *An organizational design with low departmentalization, wide spans of control, centralized authority, and little formalization,* 277
  strengths and weaknesses of, 277E10-10
Single-use plan *A one-time plan specifically designed to meet the needs of a unique situation,* 208, 209
Situational approach. *See* Contingency approach
Situational leadership theory (SLT) *A leadership contingency theory that focuses on followers' readiness,* 466–467
Six sigma *A quality program designed to reduce defects and help lower costs, save time, and improve customer satisfaction,* 528–529
Skill-based pay *A pay system that rewards employees for the job skills they can demonstrate,* 327, 328
Skill variety *The degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents,* 438, 439
Slack time *The amount of time an individual activity can be delayed without delaying the whole project,* 254, 255
Small business *An organization that is independently owned, operated, and financed; has fewer than 100 employees; doesn't necessarily engage in any new or innovative practices, and has relatively little impact on its industry,* 537
Social audits, ethical behavior and, 139
Social capital, in global mind-set, 86E3-7
Social entrepreneur *An individual or organization who seeks out opportunities to improve society by using practical, innovative, and sustainable approaches,* 140–141
Social irresponsibility, ethical behavior and, 139–140
Socialization *The process that helps employees adapt to the organization's culture,* 54–55
Social learning theory *A theory of learning that says people can learn through observation and direct experience,* 391
Social loafing *The tendency for individuals to expend less effort when working collectively than when working individually,* 352, 353
  in global work teams, 362
Socially responsible investing (SRI) funds, 127
Social media, 227, 291, 339, 416, 418, 426–427
Social needs *A person's needs for affection, belongingness, acceptance, and friendship,* 432, 433
Social network structure *The patterns of informal connections among individuals within a group,* 363–364
Social obligation *When a firm engages in social actions because of its obligation to meet certain economic and legal responsibilities,* 124–125
Social responsibility *A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society,* 125
  arguments for and against, 126–127, 126E5-1
  corporate philanthropy and, 141–142
  in entrepreneurial ventures, 539–540
  ethical lapses and, managing, 139–140
  green management and sustainability and, 127–129
  social entrepreneurship and, 140–141
  volunteering efforts and, employee, 142
  vs. social obligation and social responsiveness, 124–125
Social responsiveness *When a firm engages in social actions in response to some popular social need,* 124–125
Social screening *Applying social criteria (screens) to investment decisions,* 127
Social skills, in EI, 386
Socioeconomic background, workforce diversity and, 110
Socioeconomic view *The view that management's social responsibility goes beyond making profits to include protecting and improving society's welfare,* 125
Sole proprietorship *A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts,* 547, 548EA-4
South Asian Association for Regional Cooperation (SAARC), 76
Southern Common Market, 75
Span of control *The number of employees a manager can efficiently and effectively manage,* 271
  contrasting, 271E10-6
  today's view of, 271–272
Specific plans *Plans that are clearly defined and leave no room for interpretation,* 207

Stability strategy *A corporate strategy in which an organization continues to do what it is currently doing,* 230, 231
Staff authority *Positions with some authority that have been created to support, assist, and advise those holding line authority,* 270, 271
vs. line authority, 270, 270E10-5
Stakeholders *Any constituencies in the organization's environment that are affected by an organization's decisions and actions,* 50, 51
approach to going green, 128
managing, 50–51
organizational types, 51E2-4
Standing plans *Ongoing plans that provide guidance for activities performed repeatedly,* 208, 209
Stated goals (objectives) *Official statements of what an organization says, and what it wants its various stakeholders to believe, its goals are,* 206, 207
Status *A prestige grading, position, or rank within a group,* 351–352
in global work teams, 362
Stereotyping *Judging a person on the basis of one's perception of a group to which he or she belongs,* 389
Stories used to teach organizational culture, 55
Storming stage *The second stage of group development, characterized by intragroup conflict,* 347
Strategic alliance *A partnership between an organization and a foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities,* 79–80
Strategic benefits in workforce diversity, 100E4-2, 101–102
Strategic business units (SBUs) *The single independent businesses of an organization that formulate their own competitive strategies,* 231
SWOT analysis used to evaluate, 231
Strategic flexibility *The ability to recognize major external changes, to quickly commit resources, and to recognize when a strategic decision was a mistake,* 236, 237
developing, 236E9-7
Strategic goals, 206
Strategic leadership *The ability to anticipate, envision, maintain flexibility, think strategically, and work with others in the organization to initiate changes that will create a viable and valuable future for the organization,* 235
effective, 235, 235E9-6
need for, 235
Strategic management *What managers do to develop the organization's strategies,* 224–225
competitive strategies and, 231–234
corporate strategies and, 228–231
customer service strategies and, 237–238
e-business strategies and, 237
importance of, 225–226
innovation strategies and, 238–239, 239E9-8
strategic flexibility and, need for, 236, 236E9-7
strategic leadership and, need for, 235, 235E9-6
strategic management and, 238
Strategic management process *A six-step process that encompasses strategic planning, implementation, and evaluation,* 226–227, 226E9-1
evaluating results, 228
formulating strategies, 228
identifying mission, 227, 227E9-2
implementing strategies, 228
performing external analysis, 227
performing internal analysis, 228
SWOT analysis and, 226E9-1, 228
Strategic partnerships *Collaborative relationships between two or more organizations in which they combine their resources and capabilities for some business purpose,* 296–297
Strategic plans *Plans that apply to the entire organization and establish the organization's overall goals,* 207
Strategies *The plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals,* 225
See also Strategic management
Strengths *Any activities the organization does well or any unique resources that it has,* 228, 229
Stress *The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities,* 161
causes of, 161–162
reducing, 163–164
symptoms of, 162–163, 163E6-7
Stressors *Factors that cause stress,* 161
Strong cultures *Organizational cultures in which the key values are intensely held and widely shared,* 52–53
changing organizational culture and, 160
vs. weak cultures, 52–54, 53E2-7
Structural components, changing, 155–156
Structured problems *Straightforward, familiar, and easily defined problems,* 186, 187
Stuck in the middle, 234
Students in Free Enterprise (SIFE) survey, 139
Sunk costs error, 191, 191E7-11
Support, to reduce resistance to change, 159, 159E6-5
Supportive leader, 467
Surface-level diversity *Easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel,* 100, 101
Sustainability *A company's ability to achieve its business goals and increase long-term shareholder value by integrating economic, environmental, and social opportunities into its business strategies,* 16, 17
of competitive advantage, 232
SWOT analysis *An analysis of the organization's strengths, weaknesses, opportunities, and threats,* 228, 229
strategic business units evaluated with, 231
in strategic management process, 226E9-1, 228
Symbolic view of management *The view that much of an organization's success or failure is due to external forces outside managers' control,* 44, 45
System *A set of interrelated and interdependent parts arranged in a manner that produces a unified whole,* 36, 38

T

Task conflict *Conflicts over content and goals of the work,* 354, 355
Task demands, 162
Task force *A temporary committee or team formed to tackle a specific short-term problem affecting several departments,* 294–295
Task identity *The degree to which a job requires completion of a whole and identifiable piece of work,* 438, 439
Task significance *The degree to which a job has a substantial impact on the lives or work of other people,* 439
Task structure *One of Fiedler's situational contingencies that describes the degree to which job assignments are formalized and structured,* 465
Taylor's scientific management principles, 29–30, 30EMH-2
Team management. *See* Work teams
Team structure *An organizational structure in which the entire organization is made up of work teams,* 289–290
advantages/disadvantages of, 289E11-1
See also Group structure
Technical skills *Job-specific knowledge and techniques needed to proficiently perform work task,* 12, 13
Technology
changing, 156
entrepreneurial ventures and, 541–542
generational differences in, 394
mass customization, 529–530
mobile computing and communication, 301
in operations management, 526
organizational structure and, 275–276, 276E10-9
training methods and, 325E12-9
in value chain management, 522
See also Information technology (IT)
Telecommuting *A work arrangement in which employees work at home and are linked to the workplace by computer,* 297–298
Teleconferencing
in networked system, 416
as training method, 325E12-9
vs. other communication methods, 408E15-2
Telephone communication, 408E15-2
Telling, in SLT, 466
Terrorism, 85
Thematic Apperception Test (TAT), 435E16-4
Theory *The assumption that employees dislike work, are lazy, avoid responsibility, and must be coerced to perform,* 432–433
Theory Y *The assumption that employees are creative, enjoy work, seek responsibility, and can exercise self-direction,* 432–433
Therbligs *A classification scheme for labeling basic hand motions,* 30, 38
Thinking types, in MBTI, 381
Thinness, workforce diversity and, 110
Threats *Negative trends in the external environment,* 227
360-degree performance appraisal, 327E12-10

Three needs theory *The motivation theory that says three acquired (not innate) needs—achievement, power, and affiliation—are major motives in work,* 434–435, 435E16-4
Time management programs, 163
Tipping Point, The (Gladwell), 7
Title VII of Civil Rights Act, 316E12-3
Top managers *Managers at or near the upper levels of the organization structure who are responsible for making organization-wide decisions and establishing the goals and plans that affect the entire organization,* 6, 7
Total quality management (TQM) *A philosophy of management that is driven by continuous improvement and responsiveness to customer needs and expectations,* 35, 38
Trade mechanisms, global, 76–77
  IMF and, 77
  OECD and, 77
  World Bank Group and, 77
  WTO and, 76–77
Trading alliances, regional, 72–76
  African Union and, 76
  ASEAN and, 75–76, 75E3-2
  East African Community and, 76
  European Union and, 72–74, 73E3-1
  NAFTA and, 74–75
  SAARC and, 76
Traditional goal setting *An approach to setting goals in which top managers set goals that then flow down through the organization and become subgoals for each organizational area,* 208
  problems with, 208–209, 209E8-2
Traditional organizational designs, 277–278
  divisional, 278
  functional, 278
  simple, 277
  strengths and weaknesses of, 277E10-10
Traditional view of conflict *The view that all conflict is bad and must be avoided,* 354, 355
Training, employee, 324–325
  methods of, 325, 325E12-9
  types of, 324–325, 325E12-8
Trait theories of leadership, 461, 461E17-1
Transactional leaders *Leaders who lead primarily by using social exchanges (or transactions),* 469–470
Transformational leaders *Leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes,* 470, 471
Transnational, or borderless, organization *An MNC in which artificial geographical barriers are eliminated,* 78, 79
Trust *The belief in the integrity, character, and ability of a leader,* 473
Turnaround strategy, 230
Turnover *The voluntary and involuntary permanent withdrawal from an organization,* 373
Twitter, 15–16, 404, 416, 418, 421, 497
Two-factor theory *The motivation theory that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction,* 433–434, 433E16-2
Type A personality *People who have a chronic sense of urgency and an excessive competitive drive,* 162, 163
Type B personality *People who are relaxed and easygoing and accept change easily,* 162, 163

U

Uncertainty *A situation in which a decision maker has neither certainty nor reasonable probability estimates available,* 188–189
Uncertainty avoidance, in national cultures
  in GLOBE framework, 83, 84E3-6
  in Hofstede's framework, 83E3-5
Unexpected, in entrepreneurial ventures, 541
Unit production *The production of items in units or small batches,* 276, 277
Unity of command *The management principle that each person should report to only one manager,* 270, 271
Universality of management *The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in organizations no matter where located,* 17–18, 17E1-9
University of Iowa studies, 462–463, 462E17-2
University of Michigan studies, 462E17-2, 463
Unstructured problems *Problems that are new or unusual and for which information is ambiguous or incomplete,* 186, 187
Upward communication *Communication that flows upward from employees to managers,* 412, 413

V

Valence, 443
Value *The performance characteristics, features, and attributes, and any other aspects of goods and services for which customers are willing to give up resources,* 520, 521
Value chain *The entire series of organizational work activities that add value at each step from raw materials to finished product,* 520, 521
Value chain management *The process of managing the sequence of activities and information along the entire value chain,* 519–520, 521
  benefits of, 520–521
  coordination and collaboration in, 522
  cultural attitudes and, 525
  employees/human resources, 523–524
  goal of, 520
  leadership, 523
  obstacles to, 524–525, 524E19-3
  operations managed by using, 521–525
  organizational barriers in, 524–525
  organizational culture and attitudes in, 524
  organizational processes in, 522–523
  people in, 525
  required capabilities in, 525
  strategy in, 521–524, 521E19-2
  technology investment in, 522
Values *Basic convictions about what is right and wrong,* 131
Values-based management *The organization's values guide employees in the way they do their jobs,* 132, 133
Variable pay *A pay system in which an individual's compensation is contingent on performance,* 327, 328
Venture capitalists *External equity financing provided by professionally managed pools of investor money,* 545
Verbal intonation *An emphasis given to words or phrases that conveys meaning,* 407
Vertical integration, 230
Videoconferencing, 408E15-2
  in networked system, 416
  as training method, 325E12-9
  vs. other communication methods, 408E15-2
Violence in workplace, 501–503, 503E18-12
Virtual organization *An organization that consists of a small core of full-time employees and outside specialists temporarily hired as needed to work on projects,* 291
Virtual team *A type of work team that uses technology to link physically dispersed members in order to achieve a common goal,* 359
Visionary leadership *The ability to create and articulate a realistic, credible, and attractive vision of the future that improves upon the present situation,* 471
Vocational Rehabilitation Act, 316E12-3
Voice-mail, 408E15-2, 416
Volunteering efforts, employee, 142

W

Weak cultures, 52–54, 53E2-7, 160
Weaknesses *Activities the organization does not do well or resources it needs but does not possess,* 228, 229
Wealth of Nations, The (Smith), 28
Weber's bureaucracy, 31, 32EMH-4
Webinars, 416
Wellness programs, 164
Whistle-blowers *Individuals who raise ethical concerns or issues to others,* 140, 141
White-water rapids metaphor, 153, 154
Wikis, 416, 418
Work councils *Groups of nominated or elected employees who must be consulted when management makes decisions involving personnel,* 315–316
Worker Adjustment and Retraining Notification Act, 316E12-3
Workforce diversity *The ways in which people in an organization are different from and similar to one another,* 98–100
  age and, 47, 105–106, 318
  challenges in managing, 110–112
  cultural, 47
  deep-level, 100, 101
  disabled workers and, 108–109, 108E4-6
  employee resource groups and, 115–116
  evolution of, 99E4-1
  gender and, 106
  glass ceiling and, 112
  GLBT and, 109–110
  global workforce changes and, 103–105
  importance of managing, 100
  initiatives, 112–116
  legal aspects of, 113–114, 113E4-8
  mentoring and, 114, 114E4-9
  motivation in, 448
  organizational growth and, 230
  organizational performance benefits in, 100E4-2, 101
  people management benefits in, 100E4-2, 101
  personal bias and, 110–112, 111E4-7

population trends and, 102–103, 102E4-3, 104
racial/ethnic groups and, 102, 102E4-3, 107, 318
religion and, 109
skills training in, 115
socioeconomic background and, 110
strategic benefits in, 100E4-2, 101–102
surface-level, 100, 101
top management commitment to, 114
types of, 105–110, 105E4-5
Work–life balance, managing, 330–332
Work–Life Balance Award Act, 316
Workplace concerns, 499–503
employee theft, 500–501, 501E18-11
privacy in workplace, 500
violence in workplace, 501–503, 503E18-12
Workplace misbehavior *Any intentional employee behavior that is potentially damaging to the organization or to individuals within the organization,* 374, 375
Workplace Relations Bill, 317
Workplace romances, 330
Workplace spirituality *A culture where organizational values promote a sense of purpose through meaningful work that takes place in the context of community,* 58–59
critics of, 60
cultural characteristics of, 60
importance of, 59–60
Work specialization *Dividing work activities into separate job tasks,* 265
economies and diseconomies of, 266E10-2
today's view of, 266
Work teams *Groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills,* 357–358, 359
appropriate leadership in, 360
challenges in managing, current, 361–364
effective, characteristics of, 359–361, 360E13-10
entrepreneur as leader of, 554–555
global, 361–362
goals in, 359
good communication in, 360
internal/external support in, 360–361
leadership in, 471–472, 472E17-5
mutual trust in, 360
negotiating skills in, 360
relevant skills in, 359
skills, building, 363
social networks and, understanding, 363–364
types of, 358–359
unified commitment in, 360
vs. groups, 358E13-9
See also Groups
World Bank Group *A group of five closely associated institutions that provides financial and technical assistance to developing countries,* 77
World Trade Organization (WTO) *A global organization of 153 countries that deals with the rules of trade among nations,* 76–77
Written essay performance appraisal, 327E12-10

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